SIGNS OF RESILIENCE

ALBERTA CENTRAL 2016 ANNUAL REPORT

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AlbertaCentral

Alberta Central is the central banking facility, service bureau, and trade association for the province's credit unions. We advocate for the financial cooperative model, providing leadership and support to 22 independent credit unions with almost 200 branches, serving over 616,000 members across the province.

For nearly half a century, Alberta Central has helped credit unions succeed by supporting their business needs. Take a look inside to learn how Alberta Central has innovated and adapted to fulfill this mandate for 2016 and beyond.

On the cover:
MERYA GOULD
ASSISTANT BRANCH MANAGER, SERVUS CREDIT UNION, FORT MCMURRAY
IN FORT MCMURRAY'S BEACON HILL NEIGHBOURHOOD, CREWS ARE HARD AT WORK REBUILDING HOMES LEVELLED DURING THE WILDFIRE OF MAY 2016.

What doesn't bend breaks. It's an idea that's employed in one way or another across almost every discipline. From science to psychology, ecology to economics, the ability to adapt and recover is seen as a predictor of success. Resilience is key to strength.

In the pages ahead, we'll share how signs of resilience shape Alberta Central's story in 2016. We'll detail the numbers behind our second-best financial results and explore some of the ways Alberta Central is innovating to serve our members in the face of a shifting financial services market.

This year was a difficult one for the residents of Fort McMurray. We couldn't talk about 2016 without addressing the wildfires in that community, and more importantly, without acknowledging the resilience and cooperative spirit shown in the face of this extraordinary challenge. Within this annual report, we will highlight efforts of the credit union system to support those affected by the wildfires.

Finally, in 2017, Alberta Central celebrates its Golden Jubilee. Join us as we look ahead to our 50th year and towards another half century of cooperative strength.

ANNUAL REPORT DASHBOARD

Alberta Central's mission is to help credit unions achieve success. Throughout 2016, Alberta Central continued to deliver on this intent, providing the support, products and services to help our member credit unions prosper in a changeable and challenging economic environment.

Alberta Central remained buoyant throughout the persisting economic challenges of 2016, posting another year of high core earnings and distributing strong share and patronage dividends to our members. It's the credit union way: when Alberta Central succeeds, so do Alberta's credit unions.

* *Before tax and dividends.*

2016 FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31	2016	2015
(thousands of dollars)		
Net income*	11,460	11,730
Net interest income	14,991	14,943
Earnings in Celero Solutions	1,191	1,382
Patronage dividends	8,100	7,500
Share capital dividends	6,493	5,974
Total Assets	3,075,947	2,671,156
Members' Equity	315,420	304,020

** Before increases in asset-backed commercial paper (ABCP), patronage dividends and taxes.*

CREDIT UNIONS IN ALBERTA

ATMs

BRANCH LOCATIONS

FTE (EMPLOYEES)
(thousands)

STRONG AND RESILIENT

Alberta Central successes in 2016

IT'S BEEN ALMOST 50 YEARS since Alberta Central became the central banking facility, service bureau, and trade association for the province's credit unions. That's a long time; long enough to weather a few storms, to embrace a shifting world and to learn that change and adversity are challenges best faced cooperatively. It is, after all, the collective strength of Alberta's credit union system that makes us strong and resilient.

Throughout 2016, Alberta Central exercised our resilience in a variety of ways in order to meet the needs of our member credit unions. Here's how:

ENDURING FINANCIAL SUCCESS

2016 ushered in another year of low oil prices, sluggish economic performance and a low-interest rate environment. Despite these challenges, Alberta Central achieved its second highest level of core earnings in its history (excluding one-time gains), resulting in strong share and patronage dividends for our member credit unions.

Through effective management of both our expenses and our investment portfolio, as well as robust performance from our joint ventures, Alberta Central has maintained strong financial performance year over year, achieving financial results of $11.5 million* in 2016.

NATIONAL PAYMENTS STRATEGY

Last year, Canadian credit unions continued to work collectively to pursue economies of scale, innovation and increased competitiveness in an effort to address challenges and opportunities in the payments environment. To this end, considerable work was completed on the National Payments Strategy.

In 2016, Alberta Central's leadership team continued to take an active leadership role on the National Payments Strategy Committee and other work streams. We examined how this national strategy would impact the finances, organization, and operations of Alberta Central, our members and other stakeholders. We engaged our member credit unions and other stakeholders and we represented the interests of the Alberta credit union system at the national level.

On December 2, at an Alberta system town hall, all participating credit unions expressed their support for the National Payments Strategy. By December 31, following a unanimous vote from the Alberta Central board, the Alberta system had secured the approvals necessary to provide its support for the formation of a national payments entity referred to as PayCo, which will own, manage and operate payment activities for the Canadian credit union system.

** Before increases in asset-backed commercial paper (ABCP), patronage dividends and taxes.*

PROVINCIAL LEGISLATION
(passed December 2016)

GOVERNMENT RELATIONS ADVANCES

Building on the grassroots advocacy and government relations efforts of 2015, the Alberta credit union system enjoyed a year of unprecedented success in government relations in 2016.

In March, the Alberta Government announced its intent to modernize credit union legislation.

The following month, Alberta Central drafted a detailed legislative submission to government. In December, the Province passed the amended legislation, *Bill 32: Credit Union Amendment Act,* containing a number of the changes requested by Alberta Central on behalf of Alberta credit unions. Notably, the amendment confers on credit unions the power to retail home and auto insurance. *Bill 32* is the first significant amendment to Alberta credit union legislation in 30 years.

Throughout 2016, Alberta Central worked closely with credit unions and the Alberta government to explore opportunities for payday lending policy alternatives. By year's end, both Connect First Credit Union and Servus Credit Union had rolled out new lending alternatives to payday loans.

Alberta Central also worked closely with credit unions in 2016 to develop a collaborative response to the Credit Union Deposit Guarantee Corporation's deposit insurance assessment rate consultation for 2017-2019. This work was well received by the regulator. It resulted in the creation of a transparent and predictable protocol for assessing deposit insurance premiums, providing stability in the deposit guarantee fund target range for Alberta credit unions.

REGULATORY COMPLIANCE SUPPORT

In recent years, mounting regulatory compliance requirements have been a significant challenge for Canadian credit unions. In 2016, Alberta Central sought to increase our member support on this issue.

We launched this initiative by consulting with credit unions about the regulatory compliance burden to see how and where we could help. Next, we developed information assets such as a model FATCA (Foreign Account Tax Compliance Act) policy, procedures and training resources; a model privacy policy and procedures resource; and a regulatory compliance newsletter. Alberta Central in partnership with credit unions continued to invest efforts in the Regulatory Compliance Network, which helps credit unions support each other on regulatory issues. In 2016, we launched the Network Forum, an online platform that allows participants to pose questions, exchange information and offer resources to their peers. Information on the forum is retained for people to search, review and share on an ongoing basis.

WAINWRIGHT

A NETWORK OF SUPPORT

A cooperative solution for the compliance burden

IT HAS BEEN NEARLY A DECADE since the financial crisis of 2008, but its fallout — an increased regulatory compliance burden — is still very much a part of Shama Vinayaga's daily life. As the manager of Risk and Compliance at Encompass Credit Union in Wainwright, Vinayaga navigates a high-pressure compliance environment brought on by rapid technological change and increased regulation.

"In a bigger credit union, there's typically one person in charge of money laundering, one in charge of fraud, one person in charge of privacy, and so on. We're mid-sized, and I'm lucky to have a great team working with me, but it's a real challenge..." she says. "One of the main stresses in this regulatory environment, especially for small and medium-sized credit unions, is 'How do we keep up?' How do we adapt quickly enough?"

In recent years, Vinayaga has found the answer to that question in a cooperative solution.

Back in 2014, Alberta Central launched its Networks concept to facilitate information sharing and collaboration among the province's credit union system. Among the six Networks, which include Finance, Communications, Lending, Human Resources and Banking Floor, is the Regulatory Compliance Network, guided by Alanna Gaudet, Director, Regulatory Compliance, Governance and Compliance at Alberta Central.

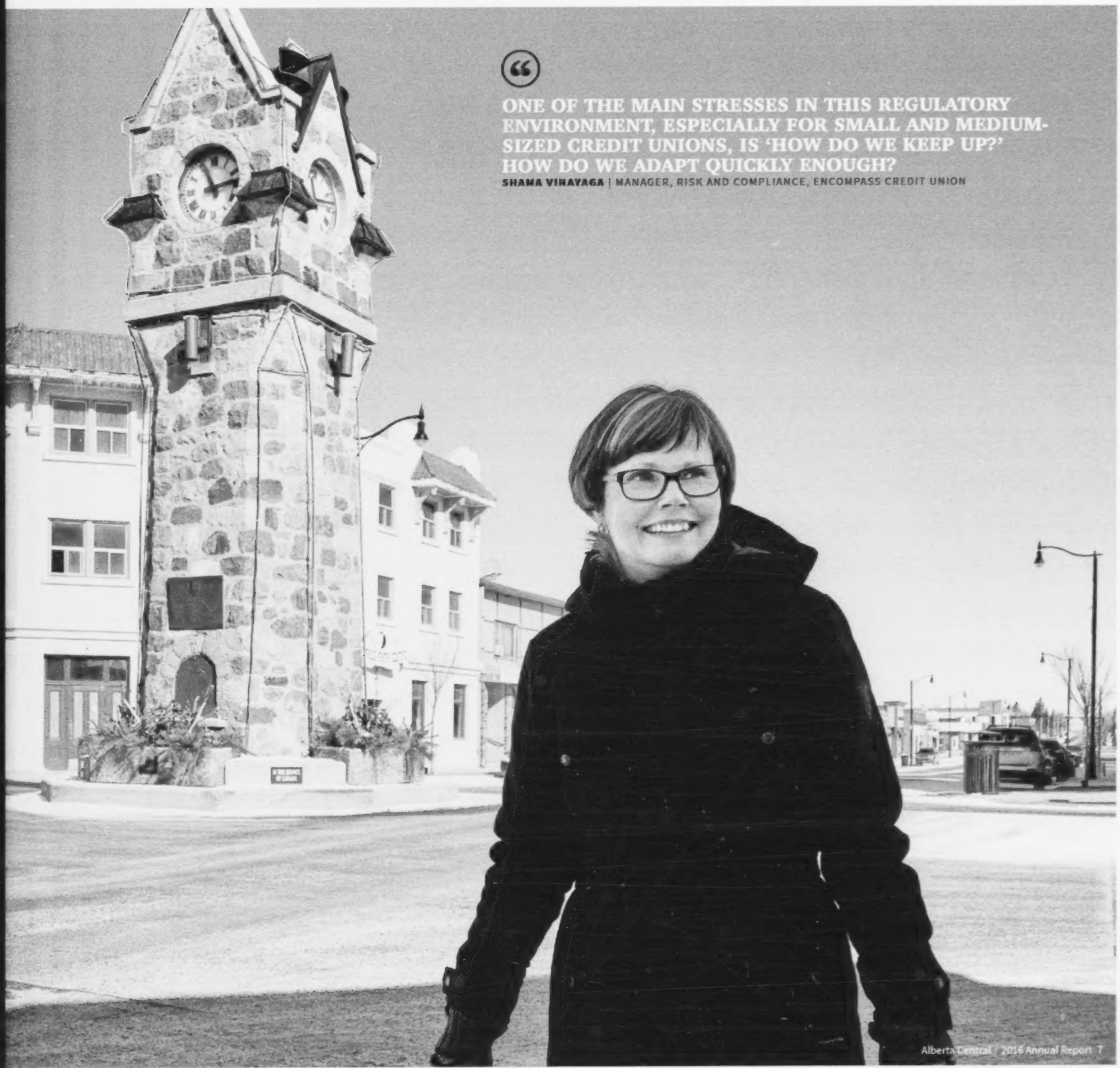
Regulatory compliance is one of the top challenges faced by credit unions. All financial institutions are required to abide by ever-increasing regulatory requirements (privacy legislation, anti-money laundering, cyber security, and Canada's anti-spam legislation, etc.), but these requirements present an extra challenge for smaller institutions with smaller compliance teams.

"The Network really helps to ease that burden," says Vinayaga, who utilizes this resource throughout each step of the compliance process, from staying on top of new legislation to establishing best practices on regulatory matters for member service staff. "I used to be signed up to every email bulletin I could think of to ensure I would get information on new legislation coming down the pipe, but now Alanna (Gaudet) is taking care of that."

Once Network members are aware of new legislation, that's when they take action, sharing advice on best practices; sometimes even sharing policy. "Alanna did a policy on anti-money laundering which we adopted in its entirety because the one we had needed revamping," says Vinayaga. She combined the new policy with practical applications from the existing policy to great effect. Not long after, auditors from FINTRAC, Canada's financial intelligence unit, commended Encompass Credit Union for having in place some of the best anti-money laundering policies and procedures they'd ever seen. It's a success that Vinayaga attributes to the value of collaboration, to the benefit of the Network.

"Any time you can share policies and procedures and information, it just makes a world of difference," says Vinayaga. "It's like having more people on your team."

Shama Vinayaga stands near the Wainwright Memorial Clock Tower that has dependably kept time in town for 90 years. It's a level of reliability that Vinayaga replicates in her work as a risk and compliance manager at Encompass Credit Union in Wainwright — one she found in the Regulatory Compliance Network to support.



“ONE OF THE MAIN STRESSES IN THIS REGULATORY ENVIRONMENT, ESPECIALLY FOR SMALL AND MEDIUM-SIZED CREDIT UNIONS, IS ‘HOW DO WE KEEP UP?’ HOW DO WE ADAPT QUICKLY ENOUGH?

SHAMA VINAYAGA | MANAGER, RISK AND COMPLIANCE, ENCOMPASS CREDIT UNION

CREDIT WHERE CREDIT IS DUE

Shell Employees' Credit Union provides timely support in YMM

WE'RE HERE FOR YOU. That message has resonated loud and clear for members of the Shell Employees' Credit Union, especially after devastating wildfires forced the evacuation of Fort McMurray during the spring of 2016. In tough times, it means a lot to know you're not alone.

"Within 24 hours we had developed a YMM Fire Relief loan program specifically for our members impacted by the fire in Fort McMurray," said Shell Employees' Credit Union General Manager, Badriea Taha. It meant virtually on-the-spot loans of up to $40,000 per affected member, with no interest and no strings attached for three months. After the three months members could choose to rewrite their loan at a low interest rate over a longer period of time, or pay it off with funds received from insurance.

"Together with our Board members and our regulators CUDGC,* we moved fast and tried to make this as simple as possible for people," said Taha. "The absence of red tape allowed us to provide timely support that had a direct impact on the well-being of our members."

Membership in the Shell Employees' Credit Union is open to Shell employees, their families, retirees, contractors and referrals. Anyone in any of these categories who wasn't already a member had only to open a new account and become a member to apply for the YMM Fire Relief loan. It was a popular offering.

"We advanced just under $1 million in loans with zero interest," said Taha. "People were looking for immediate assistance and this was a great opportunity for us to give back to our community."

A few members completely lost their homes in the fire. Several others were displaced for months before they could get back to work. The credit union and the cooperative model made it possible to provide timely financial support that helped get members back on track. Knowing they're not alone will go a long way toward helping them rebuild their community.

Badriea Taha, general manager of Shell Employees' Credit Union, knew access to financial resources had to be quick and easy to help Fort McMurray evacuees, so she and her team set in place a virtually no-fee open loan program.

* *Credit Union Deposit Guarantee Corporation*

STRENGTH UNDER FIRE

Credit union support fuels resilience in YMM

THERE REALLY WASN'T ANY TIME to think things through and make sense of it all. News of the city's mandatory evacuation triggered a rush of adrenaline. As Merya Gould collected her two young children from their school and joined the parade of vehicles pointing south, she imagined a mini-vacation at West Edmonton Mall. They'd make the best of a bad situation.

"We knew this was a serious situation but we certainly didn't understand the magnitude at the time," said Gould, an Assistant Branch Manager at Servus Credit Union in Fort McMurray. "We didn't know we'd be gone for so long or the costs associated with what was happening." Few people did.

But Servus had a pretty good idea. They'd learned a lot from recent experiences with the fire in Slave Lake and flooding in southern Alberta, and got busy addressing the needs of their staff and their members immediately.

Connecting with evacuated staff was a crucial first step. Despite overloaded systems and spotty cellular connections, the contact team managed to touch base with everyone within the first six hours.

"That was the biggest thing for me," said Gould. "They reached out to each of us to make sure we were safe and had a place to stay." Communication was ongoing — twice daily from that point forward, providing information and the assurance that they were not alone.

By noon on the second day, money had been deposited into staff accounts to help with unexpected costs and incidentals. "In the moment I was wondering why they were giving me money?" said Gould. "What did they know that I didn't?" They understood that in the midst of such uncertainty and personal upheaval, money should be the least of a person's worries.

Servus applied this understanding to its membership as well. Regardless of where they were in the province, any member impacted by the situation in Fort McMurray was automatically pre-qualified for an increase in the overdraft on their chequing account, an increase in their daily withdrawal limit from ATMs, and automatic payment relief on their mortgage and vehicle payments for six and two months respectively. All they had to do was ask.

Additional support was extended on an as-need basis depending on what individuals experienced upon their return to their city. Members who had lost their homes had the option of using insurance money to rebuild while keeping their existing mortgage intact. They wouldn't have to qualify for a new mortgage in tough economic times, making it easier to be resilient.

Rallying in the aftermath, Servus continues to extend tailored solutions to help individuals and business members recover and rebuild. "Servus truly lives the values and principles of a co-operative," said Gould. "We're in this together and we're all going to come out stronger because of it."

In Fort McMurray's Beacon Hill, one of the worst hit neighbourhoods by the 2016 wildfire, home reconstruction is a sign of hope. Merya Gould, assistant branch manager at Servus Credit Union in Fort McMurray, is proud to be part of an organization that is supporting rebuilding and resilience in her town.

“WE'RE ALL IN THIS TOGETHER AND WE'RE ALL GOING TO COME OUT STRONGER BECAUSE OF IT.”

MERYA GOULD | ASSISTANT BRANCH MANAGER, SERVUS CREDIT UNION

Community-minded

VERN ALBUSH
DIRECTOR OF CORPORATE SOCIAL RESPONSIBILITY | SERVUS

When he heard about the emergency evacuation, Vern Albush was at the national Credit Union conference in Saskatoon. It was May 3, 2016.

"On that day, at that moment, our CEO, Garth Warner, engaged our Board Chair and other Directors attending the meeting," said Albush. Together with the management team, they decided Servus would immediately donate $100,000 to the Red Cross for relief efforts. The community needed help right away. And it would need more help — all kinds of help — throughout the re-entry and rebuilding stages.

Be it financial assistance, donations to the food bank, or support for local non-profits, Servus and its employees have a track record of being community minded.

In her opening address the Canadian Credit Union Association's President and CEO, Martha Durdin, included a call-out to all credit unions and their partners to join Servus to support in the disaster relief effort. Word spread fast at the conference, and credit unions and co-operative systems across the nation rallied to offer support.

"It's about meeting people where they need us at the time," said Albush. "We're there at the beginning, we're there in the middle, and we're there today... We don't pull out of communities. We rebuild them."

Member-oriented

DION LINKE
SENIOR VICE PRESIDENT, RETAIL BANKING | SERVUS

As a large yet nimble Alberta-based organization, Servus understands the local market. In the midst of a state of emergency, Servus was able to quickly identify and address member priorities. Dion Linke knows that had a positive impact.

"These folks needed access to emergency funds for expenses they weren't necessarily anticipating," said Linke. With a single phone call, members could have an overdraft added to their chequing account on the spot. No credit checks, no questions asked. Maximum withdrawal limits at ATMs were adjusted as well.

"We just made sure they had it so they could get their number one priorities addressed."

Servus provided its members peace of mind for the longer-term as well, offering automatic loan payment relief on mortgages (six months) and car payments (two months) up front, and case-by-case extensions and support moving forward.

"We're a community-oriented, member-owned entity," said Linke. "We support our members, like a true partner."

Employee appreciated

PATRICK QUESNEL
SENIOR VICE PRESIDENT OF HUMAN RESOURCES AND CORPORATE SERVICES | SERVUS

Patrick Quesnel has no doubt that shared values and common goals create strong bonds among Servus employees.

After everyone evacuated Fort McMurray on May 3, 2016, determining the safety and whereabouts of staff and their families was an absolute priority. Thanks to emergency contact lists, email and social media outreach, everyone was accounted for by day's end.

"We kept in touch twice a day from then on," said Quesnel. "It was important to keep them connected." They had to know they were never alone.

By noon the next day, payroll had deposited money into everyone's account to cover incidental expenses. Their regular pay would keep coming. This was over and above.

Servus employees across the province opened their hearts and their homes. Temporary work at other Servus branches provided much-needed routine. Counselling was available through the Employee Assistance Program. Support was meaningful and ongoing.

"We live our values, and I think it shows," said Quesnel. "Because of the support we gave our employees, they were able to reach out and support others."

SOCIAL BALANCE SHEET

MISSION

— We help credit unions achieve success by providing collaborative solutions that support their business needs.

VISION

— Alberta Central will think and act with an unwavering focus on delivering value to credit unions.

VALUES

— *responsibility:* Being dependable today and tomorrow.
— *empowerment:* Raise the bar. Own your future.
— *cooperative:* Working together to make a difference.
— *customer service:* Being there because you matter.

(left to right from top)

Alberta Central teams up with Blue Collar Lender Linen to support the Banff Food Bank.

Employees from Alberta Central volunteer at Full Spectrum Community breakfast in Calgary.

Sarah Boulton, Madonna Dutton and Alex Sarnyk help prepare meals at Brown Bagging for Calgary's Kids.

Alberta Central demonstrates its commitment to community with a $5,000 contribution to the Glenbow Kennedy Child Advocacy Centre.

Alberta Central volunteers make a difference packing hampers at the Calgary Food Bank.

STRONGER COMMUNITIES

It's a belief that's deeply embedded in credit union values: *we are stronger and more resilient when we work together.* Caring is part of our DNA. So is sharing. The most recent tally of Alberta credit union charitable contributions puts them at more than $6 million a year. In 2016, Alberta credit unions rewarded their members with $75 million in share and patronage dividends.

Last year, Alberta credit unions demonstrated that caring tradition in a multitude of ways: through programs to support employee volunteerism; by contributing to local hospitals, schools and food banks; by investing in bursaries and programs for youth; and by raising money for Fort McMurray disaster relief.

Like our member credit unions across the province, Alberta Central plays an active role in building strong, vibrant communities. Here are some of the ways we did that in 2016:

SCHOLARSHIPS

Each year, Alberta Central contributes scholarships to credit union employees or children of employees or directors.

over **$19,000**

GOLDEYE FOUNDATION SOCIETY

The Goldeye Centre, supported by the Goldeye Foundation Society, is an educational and retreat facility focused on youth, including school and scouting programs. It is also a venue for the Alberta Community and Cooperative Association youth leadership program.

over **$22,000**

ALBERTA CHARITIES AND ORGANIZATIONS

Alberta Central employees take an active role in deciding which organizations to support. In 2016, we contributed to the following organizations through donations and volunteer labour: The Calgary Food Bank, the Banff Food Bank, Make-A-Wish Foundation, Calgary Humane Society, Sheldon Kennedy Child Advocacy Centre, Brown Bagging for Calgary's Kids, Alberta Red Cross Fires Appeal, Made by Momma, Resolve YYC, Samaritan's Purse, CanLearn Society, Alberta Adolescent Recovery Centre, the United Way of Calgary and Area and more.

over **$30,000**

INVESTED IN COMMUNITIES

Across the province, credit unions are guided by cooperative principles and a connection to the communities they service. Here are just a few of the ways Alberta credit unions served their communities in 2016.

- 1st Choice Savings provided six Star Citizen School Awards of $500 each to students in the Lethbridge area.
- Beaumont Credit Union provided financial assistance to the Beaumont Nisku Christmas Elves program, which gives baskets of food, gift cards and household products for local families in need.
- Bow Valley Credit Union partnered with Alberta Central to contribute $1,500 to the Banff Food Bank in response to their plea for donations at a time when their supplies were critically low.
- Christian Credit Union sponsored a fund-raising baseball tournament for Coaldale Christian School and provided a discounted mortgage in support of the school's expansion.
- Connect First Credit Union launched its *Learn & Earn* scholarship, offering up to $27,000 in scholarships across all branches. High school students get one-on-one finance guidance. Connect First matches their tuition savings 2:1.
- Lakeland Credit Union supported a Moonjar Program, a hands-on, financial literacy program.
- Legacy Savings and Credit Union Ltd. provided a cash contribution and volunteer labour to the Calgary Firefighters Toy Association annual children's Christmas party for children and families in need.
- Mountain View Credit Union employees volunteered over 3,000 hours to charitable causes, including the credit union's Charity Golf Classic which raised $21,000 for the Carstairs Regional Skate Park.
- River City Credit Union held its Edmonton Transit Donate a Ride program, matching up to $2,000 of member donations. Funds are used to purchase transit tickets for local social service agencies.
- Rocky Credit Union supported 70 local organizations through donations and sponsorship in 2016. Employees of the credit union contributed 1,700 volunteer hours to community causes.
- Vermilion Credit Union contributed $5,500 to the Fat Cat Accelerated Reading Program at area schools. To date, the credit union has provided $71,057.52 to local schools through this program.
- Vision Credit Union Ltd. committed to a $100,000 donation over five years to the Stollery Children's Hospital, located at the University of Alberta Hospital in Edmonton.

CO-OPERATIVE DEVELOPMENT FOUNDATION (CDF) / CANADIAN CO-OPERATIVE ASSOCIATION (CCA)

For more than 65 years, the Co-operative Development Foundation of Canada has taken action to make the world a better place. Alberta Central provides annual donations to CDF in support of their efforts to help fight poverty and create more secure lives through community-owned co-ops in Africa, Asia, and Latin America.

over $61,000

PEOPLE HELPING PEOPLE: SUPPORTING FORT McMURRAY

In May 2016, when wildfire swept through the community of Fort McMurray, Alberta's Credit Union system rallied, welcoming evacuated members, offering loans and resources, and contributing financial support to the relief effort. Here's a snapshot of those contributions:

- 1st Choice Savings & Credit Union donated $8,000 to the Red Cross.
- Alberta Central contributed $15,274 to the Red Cross.
- Beaumont Credit Union donated $5,000 to the Red Cross.
- Bow Valley Credit Union donated $2,500 to the Red Cross.
- Christian Credit Union donated $5,000 to World Renew – Response to Fort McMurray.
- Connect First Credit Union raised $51,277 for the Red Cross.
- Encompass Credit Union donated $5,000 to the Red Cross.
- Lakeland Credit Union raised $16,334 for the Red Cross.
- Mountain View Credit Union donated $5,000 to the Red Cross.
- River City Credit Union donated $2,000 to the Red Cross.
- Servus Credit Union donated $100,000 to the Red Cross.
- Shell Employees' Credit Union donated $5,987 to the Red Cross, representing $1 per member.
- Vision Credit Union donated $5,000 to the Red Cross. Vision Credit Union employees collectively donated an additional $4,475.

SYSTEM ASSETS
(billions)

BRIGHT SKIES AHEAD

Brett Oland reflects on his first year as Board Chair

THE PAST YEAR HAS AFFORDED ME the opportunity to act as chair of the Alberta Central board of directors. It has given me additional insights into the credit union system in Alberta as well as nationally, and allowed me to forge connections with colleagues from across the province and country. The responsibility of being a part of the Alberta Central board comes with expectations, all of which all have an underlying theme of cooperatively supporting the continued success of the Alberta credit union system. The challenges facing credit unions are numerous today: the continuation of a struggling economic climate has caused concern for credit unions and their members; a sustained low interest rate environment continues to pressure margins; big banks, and ATB encroach on credit unions' value proposition of putting members first; and changing consumer banking habits and the rapid introduction of new technologies for financial services are challenging traditional models of bricks and mortar banking delivery.

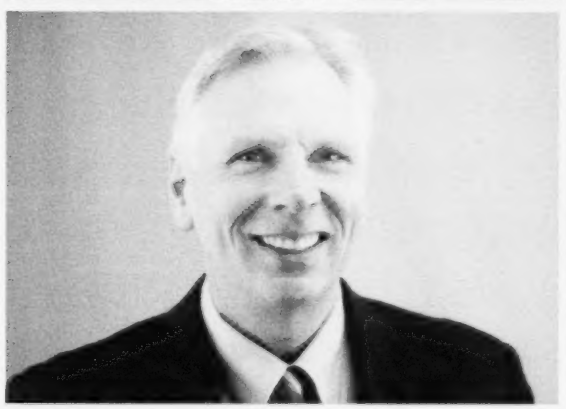
But the future I see for Alberta Central and member credit unions is bright — *I see resilience.* I am reminded of the people who started credit unions in this province. The ones who wanted an alternative to traditional banks and made it their mission to do something for the people, by the people. Each day I am fortunate enough to work with individuals in our system who believe in cooperation, and doing something to better their community. It is the focus on people and community that makes credit unions such a powerful alternative to conventional banks. And your board of directors acknowledges this important characteristic: in order to be successful as an organization serving Alberta's credit unions, we need to continue our focus on the people who govern and manage Alberta Central.

In 2016, our board took the opportunity to look at our people. The role of a board of directors is to provide sound guidance and judgment, offering a well-articulated and clear direction in support of the business strategies and objectives of Alberta Central, holding ourselves to expected high standards. Knowing that good board governance is key, we took on the responsibility of ensuring our board remains resilient, leading Alberta Central to provide enhanced support to member credit unions.

Brett Oland, Chair, Alberta Central Board of Directors, says advancing the interests of Alberta's 23 credit unions in the evolving national system will continue as a strategic priority for the Board.

THE CHALLENGES FACING CREDIT UNIONS ARE NUMEROUS TODAY... BUT THE FUTURE I SEE FOR ALBERTA CENTRAL AND MEMBER CREDIT UNIONS IS BRIGHT — I SEE RESILIENCE.

BRETT OLAND | CHAIR, BOARD OF DIRECTORS



BOARD OF DIRECTORS
(left to right from top)

Paul Kelly - First Vice Chair | REGION B
Bob Petryk - Second Vice Chair | REGION B
Dan Brunnings | REGION A
Hil Evans | REGION A
Ian Glassford | REGION A
Jon Holt | REGION A
Bob Marshall | SOUTH REGION
Kim Morris | NORTH REGION
Simon Nelgum - Secretary | REGION A
Ron Pilger | NORTH REGION
Wayne Warner | NORTH REGION

MESSAGE FROM THE CHAIR

Over the past year, we have taken more strides to update policy and practices, not only meeting minimum requirements but also building on our internal standards to meet industry best practices through benchmarking to our peer financial institutions. We also tackled the challenge at each board and committee meeting to ensure that the information asked of and provided by management is kept at a strategic, rather than operational, level. This tactic ensures the board's focus remains on the big picture of doing the things that can really advance the interests of Alberta credit unions.

Further, during the past year, Alberta Central board members reviewed and updated the board-developed skill sets matrix to assist in identifying skill gaps and opportunities within the board. Evaluation measures were undertaken by an external consultant to assess the effectiveness of the board. This process also included a director self-assessment and peer assessment component. Acknowledging the importance of these evaluations and measurements, we will continue to implement this process on an annual basis, ensuring that we fill identified gaps and opportunities, further developing directors to ensure a cohesive and strong board to guide Alberta Central.

Resiliency has been key for Alberta Central's board over the past year as it has been for Alberta credit unions. As we look to the future, I see more opportunity to advocate for and advance the interests of member credit unions. With a clear strategic focus, we will assist Alberta Central in influencing and evolving with the national system. We will remain strong and we will remain resilient in order to best support the success of our member credit unions.

On behalf of the board of directors, I would like to thank you for your support over the past year. It has been a pleasure serving your needs, and we sincerely look forward to representing member credit unions' interests well into the future.

BRETT OLAND
CHAIR, BOARD OF DIRECTORS

EMPLOYEE
ENGAGEMENT RATE

FORGING OUR FUTURE

Graham Wetter sees strength in Alberta Central's capacity to change and innovate

ONE THING I'M REMINDED OF DAILY is that change is a constant. And it is through change that I am reminded of the strength and resiliency of Alberta credit unions. Strength is what has kept Alberta Central serving credit unions for 50 years; it has kept credit unions relevant in our province for over 75 years; it is what will drive us as we forge ahead into the future. Alberta Central adopted revised strategic priorities for 2016 with the intent of providing additional support to member credit unions. By focusing on the value based strategic priorities of Customer Service, Financial Strength, Internal Effectiveness and People, we made great progress to withstand future challenges and embrace future opportunities. As member credit unions and the national system evolve, so too does the role of Alberta Central. We've taken great strides this year towards transformation and innovation, capped off with our second most successful year financially in the history of Alberta Central. I am pleased to provide an update on the strategies and initiatives undertaken this past year to better serve our member credit unions.

INNER STRENGTH

One of the most significant accomplishments of the past year was the culmination of extensive work on the National Payments Strategy. Recognizing the opportunity a national payments strategy would provide credit unions to leverage their collective strength and become more innovative and competitive in the financial services industry, Alberta Central continued to represent Alberta credit unions' interests on this initiative. Extensive participation by members of the senior leadership team on payment work streams allowed us to make substantial progress on many fronts of the national payments strategy. This included completion of the work for a national supply contract for ATMs, and nearing completion of a national ATM servicing program and new credit card solution for credit unions. Most importantly, for the future of a comprehensive payments services strategy, the decision case for the formation of PayCo was finished and released in December. Consultation with credit union leaders throughout the year and at a townhall meeting in December solidified Alberta's support for the formation of a national payments entity, moving the national system one step closer to a consolidated payments company.

Implementing a culture of innovation and entrepreneurship has been an ongoing strategic priority

WE'VE TAKEN GREAT STRIDES THIS YEAR TOWARDS TRANSFORMATION AND INNOVATION, CAPPED OFF WITH OUR SECOND MOST SUCCESSFUL YEAR FINANCIALLY IN THE HISTORY OF ALBERTA CENTRAL.

GRAHAM WETTER | PRESIDENT AND CEO

I AM EXCEPTIONALLY PROUD OF ALL THAT OUR EMPLOYEES DO ON BEHALF OF CREDIT UNIONS, AND WE SEE THIS RECOGNIZED REGULARLY BY CREDIT UNIONS THROUGH YOUR FORMAL AND INFORMAL DIRECT FEEDBACK. GREAT SERVICE IS CREATED BY GREAT EMPLOYEES AND A SUPPORTIVE WORK ENVIRONMENT.

GRAHAM WETTER | PRESIDENT AND CEO

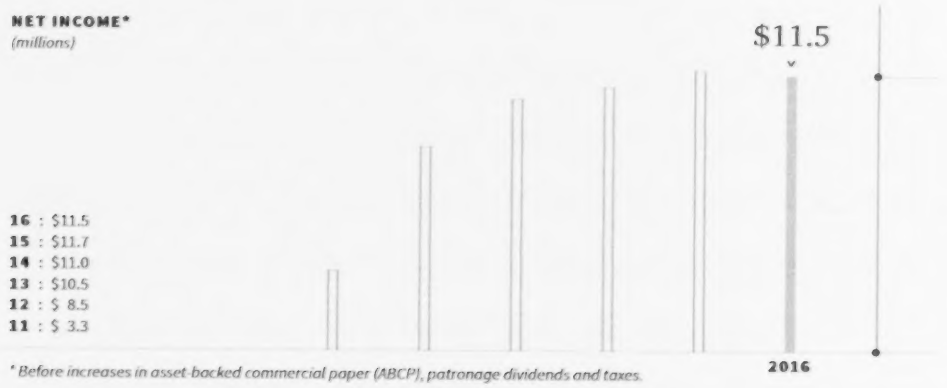
for Alberta Central of which employees have enthusiastically adopted. Each employee takes the important role of supporting credit unions seriously, keeping it top of mind in all that they do. We pride ourselves on being a facilitator for action and are continuously looking at ways we can enhance the value we provide to Alberta credit unions. Further to my previous thought "change is a constant", we developed and adopted a comprehensive change management program, training our senior management and project leaders. This facilitation will further encourage a culture of innovation, and will assist Alberta Central in its future operations.

I am exceptionally proud of all that our employees do on behalf of credit unions, and we see this recognized regularly by credit unions through your formal and informal direct feedback. Great service is created by great employees and a supportive work environment. In 2016, we saw extremely positive results through our annual engagement survey. Of the 146 employees surveyed, we achieved a 97% response rate and an overall employee engagement rate of 83%. From those responses we confirmed employees feel they have strong alignment with our values and strategy, are committed to quality and customer focus, and are proud of the work they do at Alberta Central.

EXTERNAL STRENGTH

This past year, we were able to make significant progress in provincial government relations. Working collaboratively with the Alberta Government to address an increasing problem within our province, our government relations team and member credit unions worked together in discussing and implementing alternative solutions to payday lending. In August of 2016, the Alberta Government announced the first phase of An Act to End Predatory Lending legislation. The work undertaken by credit unions and Alberta Central supported legislative changes that combat the payday lending cycle and strengthen protection for financial consumers in Alberta. Also, working with the opportunity signaled by the government in the 2015 Throne Speech for credit union legislative reform, a government relations advisory committee was struck to formulate a package of priority legislative change requests which went forward to the Minister of Finance in the spring of 2016. In November, after over 30 years without significant legislative amendments, the advisory committee's work was realized. *Bill 32: Credit Union Amendment Act* was introduced and will serve to further enhance the member experience at Alberta credit unions by allowing us to provide competitive and innovative financial products and services, such as the ability for credit unions to retail home and auto insurance.

Alberta Central also continues to represent the Alberta system on several national initiatives and with system owned affiliates. As a one-third owner in Celero Solutions, we are proud to report that Celero had a successful year in 2016, exceeding its financial targets, providing world-class banking system services and expanding its client base to service more credit unions in the BC and Ontario markets. Celero also completed a roadmap for future innovation in technology services to credit unions including a new data analytic service, next generation omni channel digital banking solutions and document management/back office automation solutions. With Alberta Central's seat on Concentra's board, we were engaged on their Bank Continuance initiative implemented in late 2016 which



* Before increases in asset-backed commercial paper (ABCP), patronage dividends and taxes.

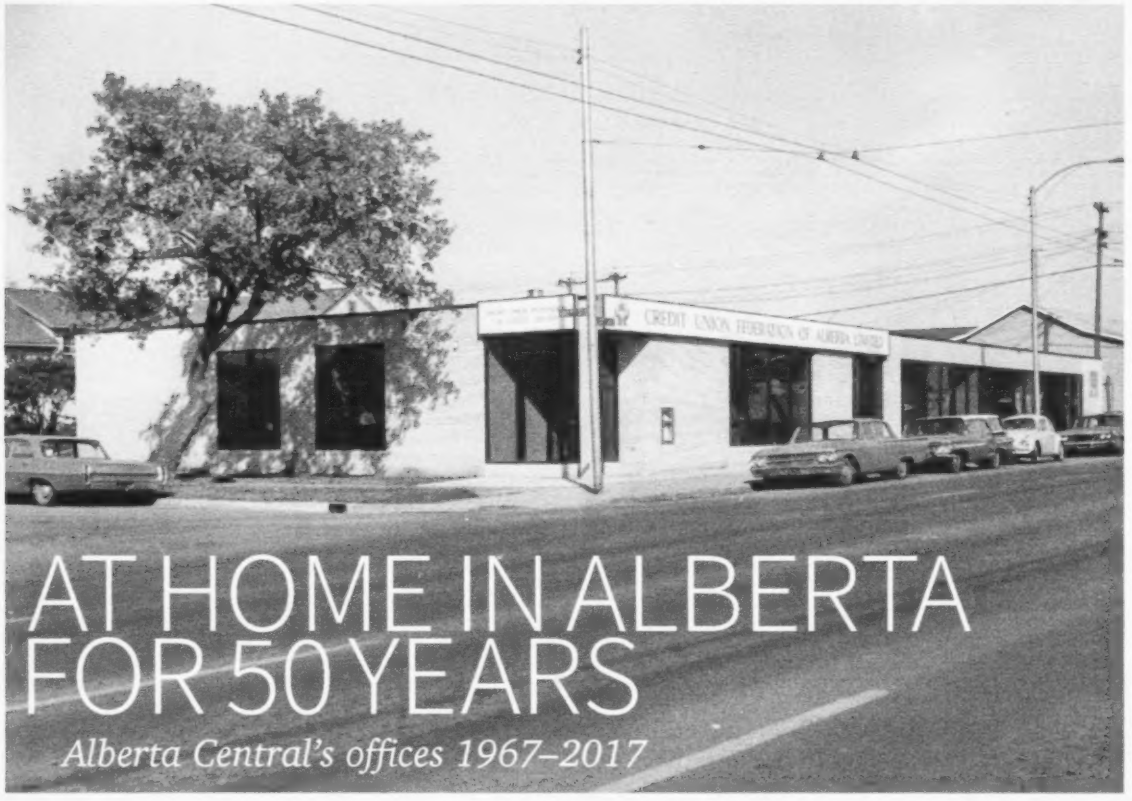
served as a means to strengthen its capacity to deliver solutions that improve financial performance, diversify risk and meet member needs. As wealth management products and services are of vital strategic importance to member credit unions, Alberta Central, as an owner of Credential Financial for the benefit of Alberta credit unions, supported a call for capital to enable Credential's expected growth over the next 5 years and address technology modernization initiatives that will support credit unions in growing their wealth management business. Finally, with a member of Alberta Central's senior management holding a seat on the Payments Canada board, we represent the national credit union system with a voice on a Payments Canada's future payments modernization initiative.

COLLECTIVE STRENGTH

A consistent piece of feedback we've heard over the past year is the increasing value the Credit Union Networks bring to member credit unions. Within the networks, participants shared best practices, gained knowledge from industry experts and received relevant training. Working groups also collaboratively created solutions for system use, including FATCA (Foreign Account Tax Compliance Act) and Privacy policy and procedures for credit unions, as well as a loan loss model, to name a few. Further, the introduction of network forums created more opportunity for open dialogue and collaboration within the system. Sharing of information, accessing real-time responses and creating a living database of information all added value to our networks, a service that has to date been a real benefit to credit unions. We will continue to utilize the networks as a collaborative tool well into the future.

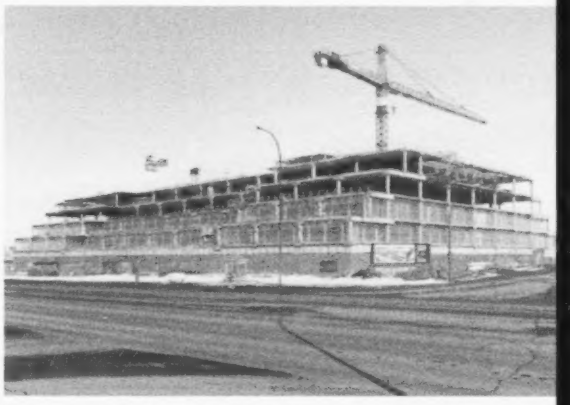
While we can be very proud of all that was accomplished this past year, we are keeping our eye on the future to ensure the competitiveness and relevance of member credit unions. The years ahead will require further transformation, and Alberta Central is committed to be a facilitator for action. In 2017, work will continue on the National Payments Strategy with continued representation of the interests of the Alberta system and supporting transition efforts toward the formation of the national payments entity. Trade services at Alberta Central will be evaluated through consultation with Alberta credit unions to ensure we are providing the appropriate support to the evolving needs of credit unions. Through the amendments to credit union legislation in the province, we will continue to help facilitate additional business powers, and foster conversations for collaborative solutions. Finally, in 2017, Alberta Central will mark its 50th anniversary. Undoubtedly, this achievement is worthy of significant thanks to member credit unions. We have taken pride in providing guidance, support and services to Alberta's credit unions, and will continue to do so as we embark on the next 50 years.

GRAHAM WETTER
PRESIDENT AND CEO



AT HOME IN ALBERTA FOR 50 YEARS

Alberta Central's offices 1967–2017



(left to right from top)

The first Alberta Central branch office on Calgary's 4th Street SW.

Alberta Central outgrew its small 4th Street office, in 1972, it began construction on a larger office building next door.

An architectural rendering of the new Alberta Central office on 4th Street.

The Credit Union Federation of Alberta (now Alberta Central) office in Edmonton in 1968.

In the early 1980s, Alberta Central and a consortium of other large co-operatives built the Macleod Trail office complex that Alberta Central still calls home.

BOARD OF DIRECTORS

Alberta Central's board is comprised of twelve directors who represent four credit union regions. Two of the regions are determined geographically (North and South) and two regions are comprised of the largest credit unions in Alberta (Servus and Connect First).

REGION	DIRECTOR ENTITLEMENT	CREDIT UNION		
A	5	Servus		
B	2	Connect First		
North	3	Beaumont Christian Edson	Encompass Lakeland River City	Rocky Vermilion Vision
South	2	1st Choice Bow Valley Calgary Police Canada Safeway	Inglewood Khalsa Legacy Savings Mountain View	Pincher Creek Shell TransCanada

Director Roles and Responsibilities
The board of directors, representing Alberta credit unions, is responsible for the stewardship of Alberta Central; this includes defining Alberta Central's risk appetite, setting the strategy and overseeing its planning process and the general oversight of management and the operations of Alberta Central. The role and responsibilities of Alberta Central's board and the president and chief executive officer are outlined in Alberta Central's corporate policies, bylaws and terms of reference for each board standing committee.

Board Independence
Alberta Central's board is comprised entirely of independent, non-Alberta Central employee directors. In furthering the independence of its directors, Alberta Central's board meets independently of management as part of every scheduled meeting. The external auditor attends all Audit & Finance Committee meetings and meets with the committee without management present. The internal audit function also has direct access to the Audit and Finance Committee. The board may independently engage outside professional advisors and is empowered to do so by Alberta Central's bylaws.

BOARD OF DIRECTORS (CONTINUED)

Board Evaluation
The board conducts an annual self-assessment process to evaluate the effectiveness of the board as a whole. Alberta Central's executive management team participates in the board assessment process (at the invitation of the board) to provide input and recommendations on board effectiveness and process. The board also conducts a director skills self-assessment and peer assessment as part of this process. The data received from this report is used by the Governance Committee to discuss skill gaps at the board level and assist the committee in making recommendations with respect to board recruitment. The feedback is also used by individual directors in planning their professional development activities.

Director Remuneration
Directors receive remuneration in the form of monthly honoraria, per diem fees for attendance at board meetings and compensation for travel time and expenses. The total remuneration and expenses paid to Alberta Central directors is disclosed in note 17 of the Financial Statements, Related Party Transactions.

Board Committees
Alberta Central's board has three standing committees responsible for both legislated and delegated functions. The committees are comprised of Alberta Central directors, and management acts as resources for the committees. Each committee meets regularly throughout the year and is required to provide timely and regular reports to the board of directors. The chairs of each committee are elected by the directors of the respective committees. The chair of the board is a voting ex-officio member of all of the board standing committees.

Governance Committee
The Governance Committee is comprised of five directors. The committee has oversight responsibility for Alberta Central's corporate policies and governance practices and oversees Alberta Central's corporate governance framework. The Governance Committee also manages the performance review process and compensation of the president and chief executive officer on an annual basis. This committee remains informed of best practices in corporate governance and makes recommendations to the board to continually improve Alberta Central's governance practices.

Audit and Finance Committee
The Audit and Finance Committee is comprised of six directors. The committee has oversight and responsibility for policies relating to investment, lending, capital management and risk management and provides oversight of Alberta Central's internal audit function to ensure appropriate internal controls are in place to ensure continued compliance with applicable regulatory requirements. The committee is also responsible for reviewing and recommending to the board the audit mandate and annual audit plan, as well as Alberta Central's financial, risk management and treasury reports, and the annual budget.

Conduct Review Committee
The Conduct Review Committee is comprised of the same six directors as the Audit and Finance Committee, and the chair of the committee is the same as that of the Audit and Finance Committee. The committee has oversight and responsibility for managing compliance with related party transaction provisions within governing legislation.

Internal Controls
Alberta Central's internal audit team, under the direction of the board's Audit and Finance Committee, periodically assesses the effectiveness of internal control procedures. The findings and recommendations of the internal audit team are reported to Alberta Central management and the Audit and Finance Committee to ensure appropriate internal controls are in place.

Risk Management
Among its responsibilities, the board must ensure that Alberta Central has the capability and demonstrates behaviours that support its risk appetite. The *Enterprise Risk Management (ERM) Policy* sets the direction for governing and managing risks generally. Responsibility for monitoring the overall risk framework remains with the board of directors as a whole but responsibility for monitoring adherence to the ERM policy is assigned to the Audit & Finance Committee, which supports the board in its oversight function. A Management Risk Committee, comprised of the executive management team, regularly assesses the key risks Alberta Central faces and updates the board on its risk assessments and any mitigating action plans.

Conduct and Accountability
Alberta Central has policies and procedures that outline the standards of conduct to which all employees and directors must adhere in performing their duties for the organization. Alberta Central has a whistleblower program in place that allows employees to report instances of serious and deliberate acts of unethical behavior related to the workplace and provides assurance that they will be protected from harassment, retaliation or adverse employment consequences provided the report was made in good faith and was not frivolous or malicious.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

This section of the annual report, which provides management's discussion and analysis (MD&A) reviews and analyzes the results of operations and financial condition of Alberta Central for the year ended December 31, 2016. The financial information within this MD&A should be read in conjunction with Alberta Central's audited financial statements for the year ended December 31, 2016 which were authorized by the Board of Directors on February 23, 2017. The results presented in this MD&A and in the financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A is dated February 23, 2017 and provides comments regarding Alberta Central's core business and its joint ventures, financial performance, economic outlook, risk management, and regulatory environment.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements. Such statements require management to make assumptions and involve inherent risks and uncertainties. Undue reliance should not be placed on forward-looking statements as actual results may differ materially from expectations due to a number of factors including but not limited to legislative or regulatory changes and general economic conditions in Alberta and Canada. Alberta Central does not undertake to update any forward-looking statements contained in this annual report.

CORE BUSINESS

Alberta Central is the liquidity manager and trade association for Alberta credit unions. Through its joint ventures it also provides payments processing and information technology (IT) services. Alberta Central provides advocacy to represent the interests of its members with provincial regulators and government.

Supporting the financial needs of credit unions, Alberta Central promotes system growth by providing credit union lending, foreign exchange, derivative and loan syndication programs, allowing credit unions to take advantage of Alberta Central's industry expertise and strong financial rating. Alberta Central's commercial paper program, which relies on an R-1 (low) credit rating by DBRS, also provides access to capital markets. Through leadership and collaboration, it is Central's aim to create innovative solutions which provide value to the Alberta credit union system.

Alberta Central is governed under the *Credit Union Act of Alberta,* and is regulated provincially by Alberta Treasury Board and Finance (Alberta TBF). Effective January 15, 2017 Alberta Central ceased to be regulated by the Office of the Superintendent of Financial Institutions (OSFI) and is no longer subject to the provisions of the *Cooperative Credit Associations Act of Canada*, which no longer applies to provincial credit union centrals.

PAYMENTS

Credit Union Payment Services (CUPS) is jointly owned by Alberta Central and SaskCentral and Alberta Central is the appointed manager of the Joint Venture. Alberta Central provides leadership in payments technology and supports the payment processing, clearing and settlement operations for the Alberta credit union system. All Alberta credit unions use services within the CUPS' service offering which includes image clearings, electronic payments, tracing, statements, document and content management services, and help desk. Alberta Central's participation in the earnings from this venture is based on the volume of Alberta credit union payment processing activity.

Image Exchange

The importance of technology innovation is evident in CUPS' leadership in the image exchange and other electronic payment optimization projects. Financial institutions in Canada are required to complete the implementation of an image exchange environment in 2017 in response to Payments Canada rule changes related to the exchange of electronic payment files between financial institutions (image exchange – forward presentment). CUPS successfully exchanged electronic forward presentment clearing items with other Centrals in 2015 and with TD Bank, CIBC and BMO in 2016. In 2017, work will continue with Central 1, as the Group Clearer, to sign bilateral agreements with additional financial institutions and to subsequently exchange forward presentment clearing items. CUPS is also working to introduce image exchange – return presentment during 2017. This phase of image exchange will result in the capability to exchange electronic payment return files with direct clearers. These initiatives will enhance the efficiency and cost effectiveness of CUPS operations through the elimination of printed replacement documents.

National Payments Strategy

Canada's payments industry is an extremely complex ecosystem with a wide range of participants and available payment methods. Occupants in this space such as banks, global payments providers, financial technology companies (fintechs) and non-traditional players have fragmented the industry, pushing it to a new competitive level.

Recognizing this and unwilling to accept the status quo, the CEO Payments Strategy Committee, with significant and ongoing support from Alberta Central, embarked in 2012 on the development of a national payments strategy (NPS) to collectively address payments challenges and opportunities. The goal is to move from a fragmented, high cost payments business to a technically and financially competitive national payments and switching company owned by credit unions in order to be quicker to market, retain control of destiny, reduce costs and remain competitive for credit unions and their members.

In 2016, after completing its work, the Committee issued a business strategy and rationale for the development of a single entity payments company (referred to as PayCo), to own, manage and operate payments activities for the Canadian credit union system.

During 2016, the boards of directors of Alberta Central and SaskCentral approved the transfer of each central's respective share of the CUPS Joint Venture's payments business and related assets to the proposed national payments company in exchange for proportional ownership by Alberta and Saskatchewan credit unions. The approvals are subject to a number of conditions, including regulatory approvals where applicable.

In addition to CUPS, the proposed new entity would be formed by merging the Digital Banking and Payments Division of Central 1, the payments division of Credit Union Central of Manitoba and the payments compliance and strategy functions at Canadian Credit Union Association into a new payments-focused organization. The proposed consolidation also requires approval by the governance and, where applicable, membership bodies, of these organizations.

If the requisite approvals are received, there will be overall benefits for credit unions. Alberta Central will continue to evolve its business model, further transitioning to a focused, operationally and financially viable central in order to provide value to Alberta credit unions, stay relevant and continue to think like a credit union.

NATIONAL PAYMENTS STRATEGY (CONTINUED)

As a representative of the Alberta credit union system, Alberta Central will continue to take an active and significant leadership role on NPS transition committees through 2017. Alberta Central will bring a strong voice to the committee tables to advocate for Alberta credit unions' interests. Clear and regular communication and engagement with credit union stakeholders will occur to gather system perspectives on the direction of the national payments strategy and keep them abreast of the status. Alberta Central will take a lead in the development of the national transition plan, and prepare and execute that plan to transition from CUPS to PayCo, while developing and implementing a transition management plan for Alberta Central.

INFORMATION TECHNOLOGY SERVICES

Alberta Central's 33.3 percent interest in Celero Solutions (Celero) and Celero's 49.0 percent interest in Everlink Payment Services Inc. (Everlink), enables it to support IT solutions and systems for credit unions and other financial institutions.

Celero provides complete banking solutions, IT planning, systems integration, hosting, support, maintenance and professional services to meet the unique needs of financial institutions of all sizes and delivers world-class reliability through its Canadian-based data centres, offices and operations. Celero is unique in its depth of core banking system conversion and technology support services for Canadian credit unions, which it offers to its clients located from British Columbia to Ontario.

Celero has been named in the FinTech Forward Top 100 in 2016, for the ninth year in a row. The FinTech Forward Top 100 is an annual international listing of the top technology vendors that derive more than one-third of their revenue from the financial services sector. Celero is one of only two Canadian companies included in the 2016 ranking.

Preventing intrusion into credit union systems is integral to the stewardship Celero provides to its clients in managing and keeping member data safe. Celero's comprehensive and independent annual 3416 audit — which measures whether Celero's wide range of systems and processes have appropriate security and privacy controls in place — was carried out by Deloitte. Celero once again achieved an unqualified audit report.

During 2016 Celero joined the Credit Union Financial Exchange (CUFX) Vendor Advisory Board, an initiative led by the U.S. based Credit Union National Association's (CUNA) Technology Council. CUFX proposes a single global standard for data exchange between credit unions and their technology providers. Celero will provide guidance in an advisory capacity to shape information exchange standards.

Everlink provides innovative payments solutions and services for credit unions, banks, and independent sales organizations across Canada. In addition to supplying best-in-breed technology infrastructure and payment network connectivity via the well-established payment network gateway, Everlink offers a diversified range of integrated payments solutions including Automated Teller Machine (ATM) managed services, card issuance and management, fraud management, point-of-sale acquiring and professional services. Credit unions continue to migrate to the Everlink switching platform; 88 percent of credit unions, representing approximately 75 percent of transaction volumes, now operate through Everlink as a single processing switch.

Under the national payments strategy, it is proposed that the credit union system's 49 percent ownership in Everlink (through Celero) will be rolled into PayCo.

2016 ECONOMIC ENVIRONMENT

The International Monetary Fund (IMF) estimated global growth in 2016 at 3.1 percent (compared to 3.2 percent in 2015). Advanced economies slowed down to 1.6 percent (compared to 2.1 percent in 2015). Emerging markets and developing economies grew 4.2 percent (compared to 4.0 percent in 2015) with most notable increases in India and China.

The Bank of Canada maintained the target overnight rate at 0.5 percent. Canada's real Gross Domestic Product (GDP) growth was 1.1 percent (the same as in 2015). Canadian total Consumer Price Index (CPI) in 2016 was 1.5 percent.

Alberta had a population growth of 1.8 percent, unemployment of 8.1 percent, up from 5.9 percent in 2015, and a decrease in average weekly wages of 2.0 percent (0.4 percent in 2015).

Alberta's real GDP shrank by 3.6 percent in 2015 and a further 2.6 percent in 2016 as the effects of low oil prices, and disruption in oil sands operations during the Fort McMurray fire, spread beyond the energy sector. However, oil prices began 2016 at 37 USD per barrel and ended the year at 53 USD per barrel, reversing the negative trend of 2015. In 2016 OPEC producers agreed to their first cut in oil production in eight years, which appeared to have a stabilizing effect on prices.

Alberta TBF estimates Alberta's 2016 GDP was reduced by 1.3 percent as a result of the wildfires. On a positive note however, the lengthy reconstruction effort may act as "stimulus" given $1 billion is expected to be spent on residential rebuilding.

Low interest rate margins, the high cost of investment in technology, and aggressive competition in the financial services marketplace continued to create pressure on Alberta's credit unions. Despite the challenging economic conditions and tough competitive environment, the credit union system continued to operate in a sustainable and profitable manner. The system grew its loan portfolio and deposits and experienced low delinquencies, and well below industry average write-offs, evidencing the system's prudent underwriting.

2016 FINANCIAL PERFORMANCE OF THE ALBERTA CREDIT UNION SYSTEM[1]

Growth

Based on 2016 year-end figures (October 31, 2016), annual total asset growth among Alberta's credit unions was 3.2 percent (2015 – 3.0 percent), which is below the 5 year annual average of 5.5 percent. Annual loan growth was 4.1 percent (2015 – 3.5 percent), below the 5 year annual average of 5.8 percent. While loan growth was slow by historical standards, the low rate of growth is largely attributable to the current state of the Alberta economy. Annual deposit growth was also slow at 0.8 percent (2015 – 0.5 percent), below both the 5 year annual average of 4.7 percent and the ten year annual average of 7.8 percent. This was due to economic conditions and the increased use of lower cost securitizations to fund lending activities.

[1] Alberta credit union system financial information has been provided by the Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of the provincial credit union system. Alberta Central has not verified the accuracy or completeness of this information. All financial information is based on a fiscal October 31 year end.

2016 FINANCIAL PERFORMANCE OF THE ALBERTA CREDIT UNION SYSTEM (CONTINUED)

Alberta Credit Union System – Balance Sheet Growth (source: CUDGC)

	2016		2015	
	$	% GROWTH	$	% GROWTH
(millions of dollars)				
Total loans	**21,181**	**4.1%**	**20,339**	**3.5%**
Residential mortgages	11,944	4.7%	11,412	4.0%
Commercial loans	6,439	4.7%	6,151	4.7%
Consumer loans	1,866	(2.3%)	1,909	(4.3%)
Agricultural and other loans	933	7.7%	866	5.9%
Total assets	**24,516**	**3.2%**	**23,764**	**3.0%**
Total member deposits	**20,982**	**0.8%**	**20,818**	**0.5%**
Total liabilities	**22,305**	**2.7%**	**21,710**	**2.5%**
Total equity	**2,210**	**7.6%**	**2,054**	**8.2%**

Profitability

Net income for Alberta Credit Unions, before taxes and patronage dividends, totaled $179 million (2015 – 187 million), or 0.74 percent of average assets. This was down 0.06 percent from the prior year. Loan losses, which were up 0.07 percent from 2015 were a contributing factor, but were well below industry average and the recent highs seen in 2010. While net income as a percentage of average assets is below the five year annual average of 0.80 percent and the 10 year annual average of 0.90 percent, it is up considerably from the post financial crisis low of 0.66 percent in 2011. This longer term improvement is largely attributable to continuing reductions in operating costs, which have fallen from 2.54 percent of average assets in 2011 to 2.08 percent in 2016.

Credit unions rewarded their members with $75.0 million in patronage and share dividends during 2016.

Alberta Credit Union System – Profitability (source: CUDGC)

	2016	2015
(millions of dollars)		
Average assets	24,143	23,421
Financial margin	537	531
(as a % of average assets)	2.23%	2.27%
Net income before taxes and patronage	179	187
(as a % of average assets)	0.74%	0.80%

With Alberta Central's role as a liquidity manager and a requirement for Alberta credit unions to maintain statutory liquidity deposits with the provincial central, the future outlook for growth in Alberta Central's yielding asset base is naturally tied to the performance of the Alberta credit union system including the generation of deposits and growth in loans.

2016 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL

Financial Overview

Despite the challenging economic conditions faced by Albertans in 2016, Alberta Central's financial results, before increases in asset-backed commercial paper (ABCP), patronage dividends and taxes, were $11.5 million (2015 – $11.7 million). Following 2015's record year this is the second highest level of core earnings in Alberta Central's history (excluding one-time gains), and demonstrates continued resiliency in Alberta Central's net interest income and strength in its joint ventures, CUPS and Celero.

The value of ABCP improved during 2016, rising $10.6 million (2015 – $1.0 million) (Note 7). In January 2017, Alberta Central received principal and interest payments of $127.9 million on ABCP notes and sold certain tracking notes, reducing the face value of ABCP outstanding to $0.1 million (Note 22).

Share capital dividends of $6.5 million and patronage dividends of $8.1 million were paid to members in the first quarter of 2016 and the strong results and capital position in 2016 supported share dividend declarations of $6.1 million and special share dividend declarations of $10.0 million in the first quarter of 2017 (see Share Capital Dividends).

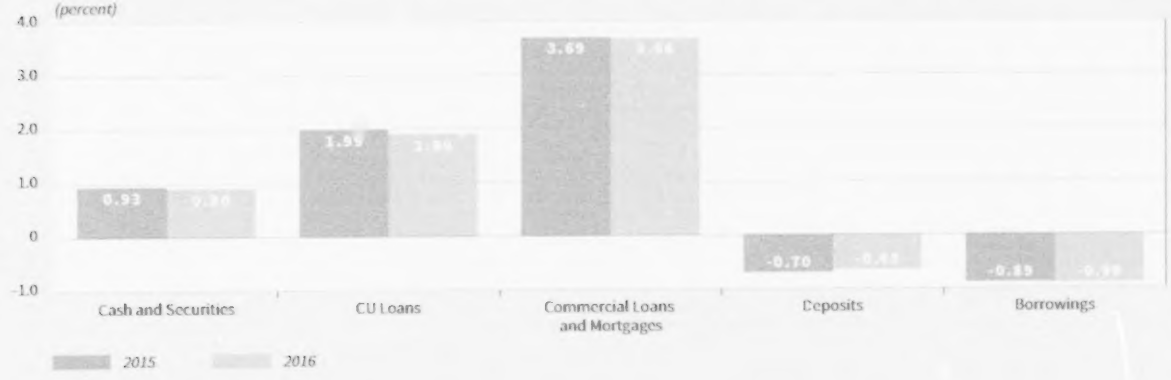
Net Interest Income

Net interest income at Alberta Central is influenced by system asset growth, system liquidity (including credit union borrowing and business loans) and interest rates. Alberta Central's 2016 net interest income of $15.0 million (2015 – $14.9 million) reflected the impact of continuing margin compression due to low interest rates and lower levels of credit union lending, but this was offset by better than expected interest payments at maturity on certain ABCP notes. Details of the key 2016 line items affecting net interest income are as follows:

- *Securities* – Alberta Central's holdings of short-term liquid securities are lower-yielding assets, and like its member credit unions, Alberta Central continued to experience financial margin compression throughout 2016 due to the low interest rate environment and also the downward effect of longer term bond repricing. However, Alberta Central partially offset these effects by achieving improved yields in cash and securities attributable to a change in the portfolio mix.
- *ABCP* – ABCP yields were higher than anticipated, with additional interest payments at maturity on certain notes. In January 2017 Alberta Central received principal payments for substantially all of the remaining notes (Note 22).
- *Credit union loans* – Alberta Central's lending function focuses on the provision of loans to member credit unions and is closely integrated and coordinated with Alberta Central's liquidity management role. Interest earned decreased in 2016 with reduced credit union borrowing from Alberta Central.
- *Commercial loans and mortgages* – Alberta Central strives to assist member credit unions in utilizing liquidity in the system by developing, processing and administering a portfolio of secured, quality business term loans in the mid-market commercial and industrial sectors in order to maximize the system's assets and improve its overall margin. The loan portfolio provides an important source of earnings, and more specifically return on equity enhancement, for Alberta Central. All of Alberta Central's commercial lending is provided on a syndicated basis with credit unions and typically as a secondary syndication partner rather than as a lead lender. The portfolio continued to reprice at lower rates in 2016.
- *Commercial paper* – In its role as liquidity manager, Alberta Central maintains a commercial paper program. The current commercial paper program provides Alberta Central with the ability to access up to $450 million in funding by issuing commercial paper in the capital markets. This funding can serve as both a source of funding for credit union lending and as a source of emergency liquidity in a system liquidity event. At December 2016 Alberta Central had issued commercial paper of $254 million.

The following chart highlights Alberta Central's percentage interest yields and interest expense during 2016:

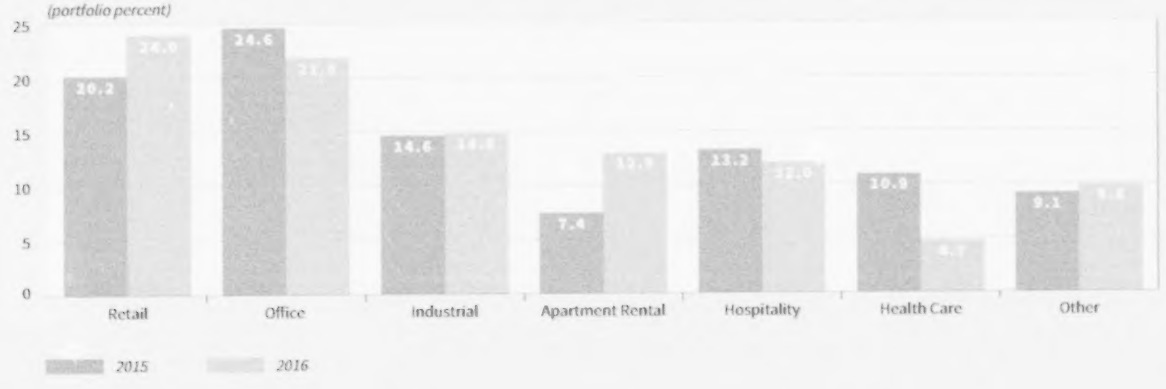
Percentage Interest Yields (Expense)



Provision for Credit Losses

As a financial institution, Alberta Central is exposed to credit risk, primarily through its investment and lending activities. Although Alberta Central's non-credit union lending portfolio is 99.9 percent (2015 – 99.9 percent) concentrated in Alberta, credit risk exposure remains diversified across industry sectors.

Non-Credit Union Lending



2016 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

Alberta Central remains committed to its loan syndication program and a number of loans were syndicated with credit unions during the year to redistribute liquidity within the system and provide participating credit unions with higher yielding assets. Average volumes were up over six percent from 2015. The retail and apartment rental sectors achieved growth in both dollar and percentage terms, which was offset by reduced lending in office, health care, and hospitality. The distribution of loans within the industrial and other sectors remained relatively consistent with the prior year.

Alberta Central management regularly reviews its portfolio to identify indications of any impairment. Alberta Central maintains specific and non-specific provisions for credit losses established as a result of reviews at an individual loan and loan portfolio level. Provisions are recorded to reduce the carrying amount of loans to their estimated realizable values.

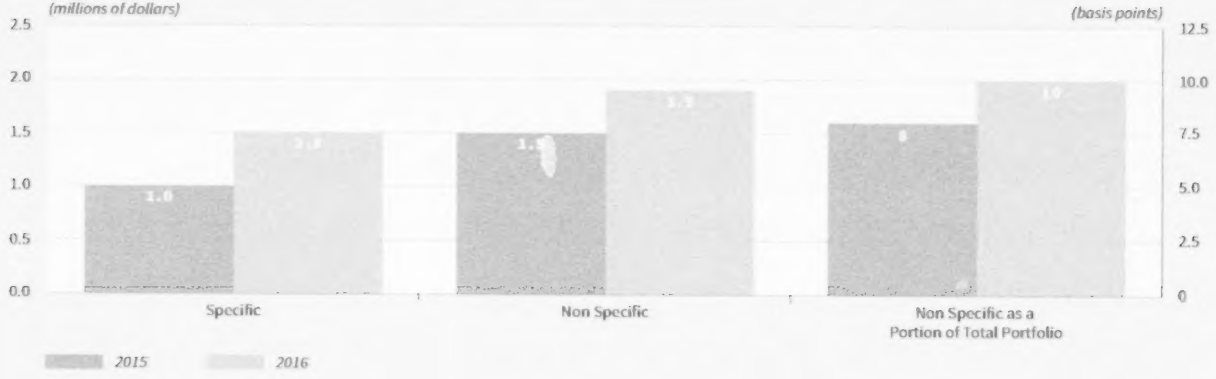
Two commercial loans written between 2007 and 2009 continue to be impaired and one additional loan was designated as impaired during 2016. New specific provisions against principal and interest of $0.7 million were recognized, while the non-specific provision for credit losses increased $0.4 million reflective of the general Alberta market outlook. Interest of $0.2 million which had been previously provided for was written off in 2016 against the specific allowance. In addition, recoveries of $0.7 million in loan principal previously written off were included in the provision for credit losses in the statement of income and comprehensive income.

A significant amount of uncertainty remains regarding the fair value of the remaining impaired loans and the range of reasonable provisions for impairment could be considered fairly broad. Management has completed a best estimate of appropriate provisions based on information currently available. The carrying value of these loans, net of provisions, is $9.9 million. Actual realization on the remaining carrying value of the loans could vary significantly, either positively or negatively, from these estimates.

A non-specific provision is established based on Alberta Central management's overall evaluation of risk in the commercial loan and mortgage portfolio in recognition of potential losses not specifically identified on an item-by-item basis. Since credit unions are Alberta Central's syndicate partner in all commercial loans, management determines the non-specific provision using a model based on delinquency rates and loan write-offs in the credit union system combined with a qualitative assessment of changes in economic conditions and changes in the Alberta credit union system loan loss provisioning. Alberta Central's non-specific provision was increased by $0.4 million during the year, to $1.9 million, reflective of the challenging economic conditions in Alberta during 2016. The non-specific provision is 10 basis points (bps) of the gross commercial loan portfolio compared to eight bps in the prior year.

Notes 2(d), 3(b) and 9 to the financial statements provide further details regarding specific and non-specific provisions for credit losses.

Allowances on Commercial Loans and Mortgages



Operating Revenues

In addition to its net interest income, Alberta Central earns operating revenue from its interest in the CUPS joint venture, complementary financial services, ancillary services provided on a fee for service basis, credit union member dues and various facilities, human resources and accounting services provided to its joint ventures. Operating revenues decreased in 2016 to $26.0 million (2015 – $27.7 million).

Because Alberta Central has joint control of CUPS, it accounts for its investment as a joint operation. As such, Alberta Central's share of both CUPS' total income and total expenses are recorded through Alberta Central's operating revenues and operating expenses. CUPS' net revenues were slightly below 2015 levels, reflective of the continuing decline in paper based clearings and the cessation in the last half of 2015 of the special development assessment for the branch remote deposit capture (bRDC) project; this was substantially offset by increased volumes in electronic payments. Alberta Central's share of CUPS net revenues totaled $11.6 million (2015 – $11.9 million).

Financial services operating revenues include revenue from complementary activities in the treasury and lending areas, such as foreign exchange, asset/liability management and commercial loan application fees. Also included is revenue from ancillary services such as manuals, credit union audit services, cash services and purchasing which are offered on a direct cost fee for service basis. Revenues earned by Alberta Central's financial and ancillary services decreased over 2015 due to decreased foreign exchange earnings.

As a trade association for all Alberta credit unions, Alberta Central's role is to recognize where there is strength in shared action and to facilitate these opportunities. The trade function at Alberta Central provides leadership and strategic support, and undertakes advocacy to represent the interests of Alberta credit unions with provincial regulators and government.

2016 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

Following the Alberta government's March 2016 speech from the throne outlining its commitment to enhance credit union legislation, Alberta Central undertook consultation with the Alberta credit union system to determine amendments for the Credit Union Act that would best support credit union competiveness, Albertans, and Alberta small and medium-sized businesses. Alberta Central collaborated with credit unions to develop a submission with legislative recommendations for the consideration of the Minister of Finance. On December 12, 2016, the *Credit Union Amendment Act* was passed by the Alberta Legislative Assembly and received Royal Assent by the Lieutenant-Governor on December 14, 2016. Most notable within the changes, pending government approval of related insurance regulation, is that Alberta credit unions will be in a position to retail home and auto insurance.

Dues charges to credit unions were down $0.3 million (5.5 percent) from the prior year and $0.7 million below budget, which, supplemented by a loyalty rebate from the Co-operators of $0.4 million provided a $1.1 million dues rebate which will be paid to credit unions in 2017.

Other operating revenues, consisting primarily of services provided to Alberta Central's joint ventures, were relatively consistent year over year.

Operating Expenses

Operating expenses include those relating directly to Alberta Central and also Alberta Central's share of operating expenses in CUPS. Operating expenses, including personnel, property and equipment, administration and organization costs, totaled $30.3 million (2015 – $31.0 million), reflecting a decrease of 2.4 percent, driven primarily by decreases in personnel and property costs.

Personnel costs relate to approximately 71 (2015 – 76) full-time equivalents (FTEs) in Alberta Central and Alberta Central's share of costs related to approximately 69 (2015 – 72) FTEs in CUPS. Personnel and related costs decreased by approximately $0.4 million (3.3 percent) as management has sought opportunities to achieve staffing efficiencies in support of the strategic priority to evolve Alberta Central's business model. Despite the operational changes, employee engagement increased with employee participation and satisfaction survey results reaching new highs for the company relative to the Hay Norm (North American-wide survey of standard employee engagement measures).

Administration and other expenses increased $0.3 million (3.4 percent) due to an increase in CUPS direct expenses relating to increased volumes in electronic payments. Property and equipment operating expenses were reduced by $0.6 million (11.6 percent) as a result of savings from space under lease.

Organization operating expenses (third party costs for dues-funded activities) remained relatively consistent with 2015.

Equity Earnings in Celero

Celero achieved another successful year in 2016, with solid financial performance, 99.96% system up time availability and an evolving suite of products and services for credit unions.

2016 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

Alberta Central's 33.3 percent interest in Celero is equity accounted within the statement of income, and includes Celero's 49.0 percent equity interest in Everlink. Alberta Central's share of net income was $1.2 million in 2016, a decrease of $0.2 million from its record income performance in 2015. Careful management of costs and continued growth both in the Prairies and into British Columbia and Ontario have allowed Celero to achieve its financial targets. In 2016 Celero earned 11 percent (2015 – 4.5 percent) of its revenue from clients outside Celero's traditional Prairie footprint. That growth is reflected in three new British Columbia credit unions joining Celero's DNA banking and hosting services during 2016. Celero also extended its IT outsourcing services in Alberta and British Columbia.

Increase in Estimated Fair Value of ABCP

The fair value of asset backed commercial paper (ABCP) increased during 2016, rising $10.6 million (2015 – $1.0 million). During 2016 Alberta Central received principal payments on the notes of $49.3 million (2015 – $5.6 million) and interest income of $1.5 million (yield of 91 bps) (2015 – $1.1 million reflecting a yield of 59 bps).

As outlined in Note 7 to the financial statements, at December 31, 2016 Alberta Central held ABCP with a total face value of $131.9 million (including accrued interest), with a fair value of $128.8 million.

At the dates of acquisition, these short-term investments were rated R-1 (high) by DBRS, the highest credit rating issued for commercial paper. The Canadian market for asset-backed commercial paper suffered a liquidity disruption during 2007/08 and the notes were restructured into longer term floating rate notes reflecting the maturity of the related underlying assets.

In January 2017, Alberta Central received principal and interest payments of $127.9 million on ABCP notes and sold certain tracking notes, reducing the face value of ABCP outstanding to $0.1 million with a fair value of $nil (Note 22).

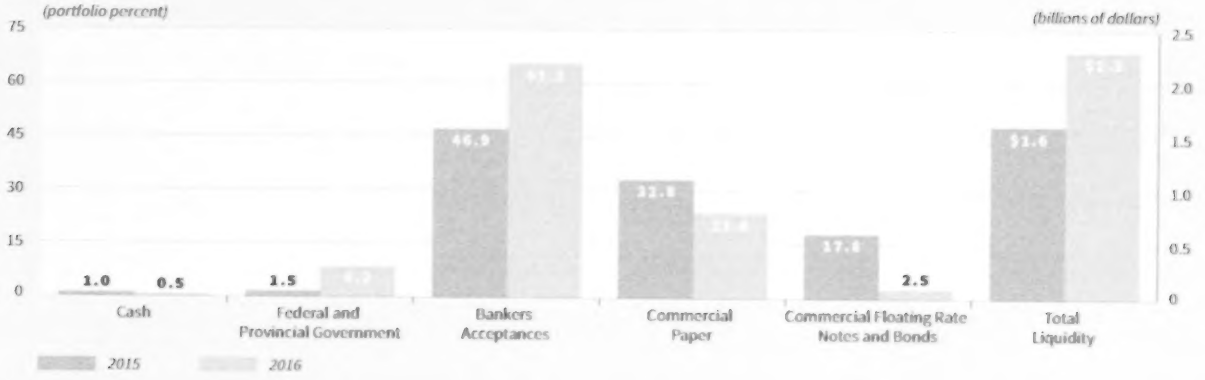
Liquidity and Regulatory Capital

Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Alberta credit unions are also required to maintain liquidity deposits at Alberta Central such that their total liquidity deposits and share capital held with Alberta Central comprise no less than nine percent of each credit union's liabilities.

Alberta Central participates with other Canadian credit union centrals in a group clearing arrangement under the terms of the *Credit Union System Group Clearing Joint Venture Agreement*. The Group Clearer is a member of Payments Canada that exchanges payment items and effects clearing and settlement. During 2016 a national liquidity arrangement established under the *Inter-Central Liquidity Agreement* expired and is no longer in effect.

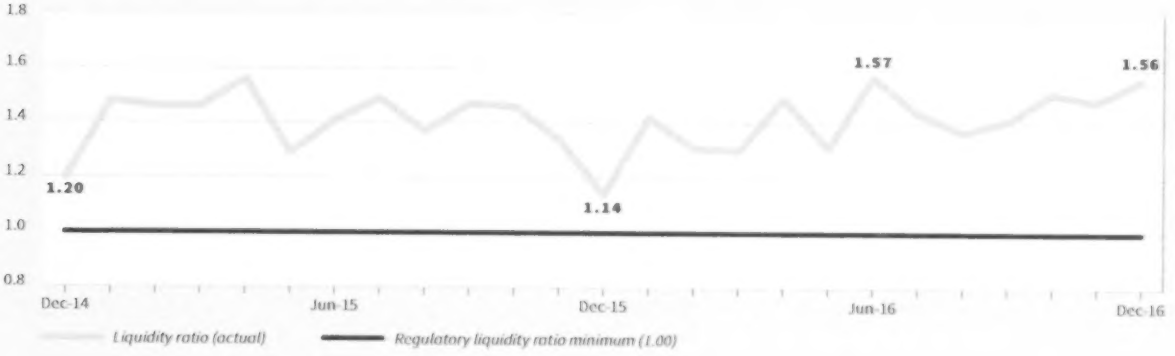
Alberta Central's investment portfolio continues to be comprised primarily of very low risk, highly liquid assets. As of December 31, 2016, effectively the entire portfolio carried a rating of at least R-1 (low) or A, and approximately 93 percent of the portfolio carried a remaining term to maturity of under one year. Provincial legislation requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year, as outlined in the following chart.

Liquid Assets



One third of the amount presented above must mature within 90 days. The required balance in qualifying liquid assets at December 31, 2016 was $1.5 billion. Alberta Central's liquidity reserves, when measured by year-end balances and throughout the year, were in excess of the requirements under provincial legislation. The following chart below plots the relationship of Alberta Central's required and actual liquidity over the past two years. ABCP investments discussed above were excluded from liquidity reserve amounts until their maturity.

Liquidity Ratio



2016 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

Alberta Central's objectives when managing capital are:

- to balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate
- to maintain a strong capital base to support the continued growth and changing circumstances of the credit union system through the development of Alberta Central's business
- to maintain a consistently strong credit rating and investor confidence
- to comply with the capital requirements set by its regulators

In 2016, Alberta Central's capital levels were regulated under guidelines issued by OSFI and Alberta TBF. These regulations require Alberta Central to maintain a prescribed borrowing multiple, the ratio of borrowings to regulatory capital. The maximum permitted provincial regulatory leverage is 15:1.

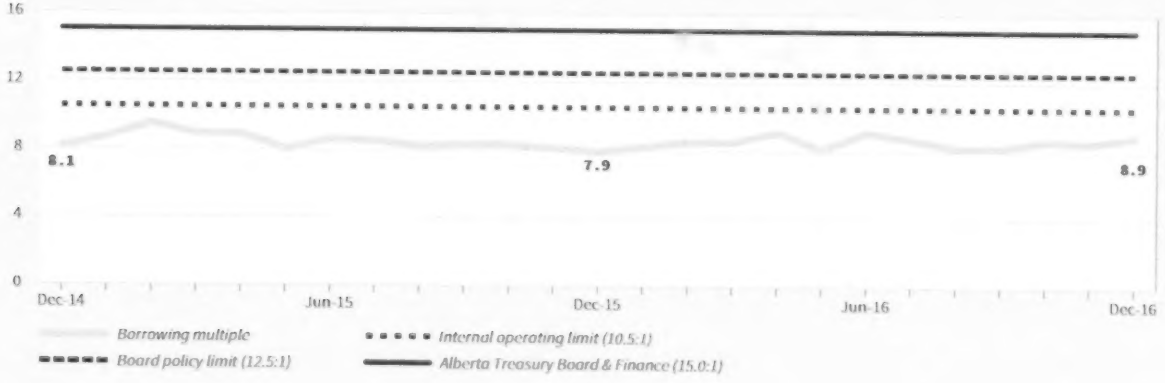
Alberta Central is required to complete an ICAAP as per Guideline E-19: *ICAAP for Deposit Taking Institutions*, which forms part of the regulatory framework established by Alberta TBF that applies to Alberta Central.

Consistent with the board-approved capital risk appetite statement, Alberta Central's ICAAP serves as a key component of Alberta Central's risk management program, quantifying risk appetite (internal operating limit (IOL)) and risk tolerance (board policy limit (BPL)) for the management of capital relative to the level and nature of risk in the organization.

Alberta Central's *Bylaws* provide the ability for Alberta Central to call for capital in the event that capital levels fall below specified risk tolerance levels.

Alberta Central's leverage remained below both its regulatory capital and internal capital maximums as presented in the following chart.

Borrowing Multiple



Alberta Central also prepares a Capital Plan which serves as a tool for the board in assessing the adequacy of Alberta Central's forward looking capital position in fulfilling its capital management objectives. Once approved by the board, both the ICAAP and Capital Plan are provided to Alberta Central's regulators.

The Capital Plan forecasts the expected organic growth of Alberta Central's capital over a three-year period assuming annual income budgets are achieved and a share dividend as outlined in the *Capital Policy* is approved by the board. Alberta Central's capital leverage ratio has averaged below the risk appetite of 10.5:1, and is forecast to remain below risk appetite through the capital planning horizon to 2019. Alberta Central is exploring options to enhance the efficiency of its capital and has committed to dialogue in 2017 with credit unions and the board on options to achieve this. In the interim, the Capital Plan contemplates $20 million in capital distributions by way of special share dividend to credit unions over a two-year period, beginning March, 2017 to redeploy capital to credit unions and improve Alberta Central's capital efficiency (see Share Capital Dividends).

Share Capital Dividends

The payment of share capital dividends and the timing and amount of such dividends is subject to the discretion of the board of directors after consideration of Alberta Central's capital adequacy risk appetite, as determined through the ICAAP, its Capital Plan, and after a review of year-end results.

Share capital dividends are determined based on a board-approved share capital dividend strategy and *Capital Policy* that provides for a share dividend calculated annually based on 65 percent of the company's prior year before tax return on equity with a floor calculated as the prime rate of interest minus 1.5 percent and a cap calculated as the prime rate of interest plus 1.5 percent, subject to remaining within the capital risk tolerance (BPL) as defined by the ICAAP. The share dividend strategy is subject to review by the board of directors through the *Capital Policy*.

Share capital dividends are based on members' minimum monthly common share capital account balances. Share capital dividends of $6.5 million were paid in the first quarter of 2016 (2015 – $6.0 million).

Subsequent to year end, on February 23, 2017, Alberta Central's board of directors declared share capital dividends of approximately $6.1 million under the share dividend strategy described above, payable in cash on March 10, 2017 (Note 22). Pursuant to Alberta Central's Capital Plan, Alberta Central's board of directors also declared a special share capital dividend to members of $10.0 million, payable in cash on March 10, 2017 (Note 22). These dividends will be reflected in Alberta Central's 2017 financial results.

Internal Control over Financial Reporting

There have been no changes in Alberta Central's design of internal controls and procedures over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, Alberta Central's internal control over financial reporting during the period covered by this MD&A.

2016 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

Critical Accounting Estimates and Assumptions

The accompanying financial statements have been prepared in compliance with IFRS. The significant accounting policies used in preparation of the audited financial statements are described in Note 3. These accounting policies require management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates. Significant areas of estimation uncertainty as described in Note 2(d) include those relating to the fair value of financial instruments and the provisions for specific and non-specific credit losses.

Future Changes in Accounting Policies

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing these financial statements. IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers* are effective for annual periods beginning after January 1, 2018, and IFRS 16 *Leases* is effective for annual periods beginning after January 1, 2019. The new standards are described in Note 3(m) of the financial statements. Alberta Central is still assessing the impact on its disclosure and financial reporting.

2017 ECONOMIC OUTLOOK

The IMF has projected global growth of 3.4 percent in 2017, with Canada's economy forecast to grow by 2.0 percent. The Bank of Canada continues to maintain its low interest rate policy, holding the overnight rate at its target of 0.5 percent. Market expectations are that the Bank will maintain the overnight rate at 0.5 percent for the remainder of 2017.

Alberta's population growth is expected to slow to 1.3 percent. The major contributing factor to the slowdown in the growth is the interprovincial net out-migration, which is a result of Alberta's relatively lower GDP growth and higher unemployment rate when compared to some other provinces. The unemployment rate is expected to hover around 8.4 percent and average weekly wages are expected to increase by 1 percent. Following Alberta's negative growth in real GDP in 2015 and 2016, a consensus of recent market forecasts predicts 2017 real GDP growth at 2.0 percent. With stability returning to the energy sector and business confidence also improving, there are grounds for cautious optimism for 2017.

RISK MANAGEMENT

Risk is inherent in business and when managed appropriately is a source of growth and sustainability. Alberta Central's objective is to optimize risk for the protection and creation of member value. Optimizing risk means striking a balance between risk and reward and at the same time ensuring that Alberta Central's risk-taking is consistent with its strategic plans and board approved risk appetite. In order to meet risk management objectives, risks must be identified, understood, measured, assessed and managed on an enterprise-wide basis.

ERM Framework

Alberta Central's ERM framework integrates its risk management process into the overall strategic management and governance structure of the organization. Alberta Central's ERM framework provides the policies and structure to allow it to identify, assess, mitigate where appropriate, and accept risk in accordance with its risk appetite and tolerance. This process ensures that Alberta Central is cognizant of the material risks that it faces and mitigates them as necessary until they reach an acceptable level.

RISK MANAGEMENT (CONTINUED)

The review and approval of risk appetite and tolerance statements by the board of directors on a regular basis is integral to the ERM framework and will continue through 2017.

Alberta Central has determined that the following risk categories are most applicable to the business operations.

Capital Adequacy Risk
Capital adequacy risk is the risk of financial loss and/or regulatory intervention due to the failure of Alberta Central to maintain the prescribed capital base to meet regulatory requirements and/or the capital base necessary to support its business plans. Alberta Central's capital management processes anticipate the capital requirements and the sources that will be drawn upon to maintain the necessary level of capital throughout the year. Management regularly monitors and reports the levels and quality of the company's capital to the Audit and Finance Committee/board of directors. Alberta Central's ICAAP and Capital Plan are approved by the board of directors annually. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to capital adequacy risk.

Liquidity Risk
Liquidity risk is the risk of being unable to meet financial commitments through regular cash flows which can lead to losses as Alberta Central could be forced to raise funds at higher costs or sell assets at reduced prices. For Alberta Central this means ensuring that managed assets must be available to meet its own needs as well as the needs of Alberta credit unions.

Alberta Central ensures there is sound management of liquidity and funding risk. Alberta Central is willing to accept liquidity risks that carry a low probability of triggering reliance on contingent sources of liquidity and increased cost of funds. Alberta Central's investments are of high grade credit quality that can be pledged or sold to provide liquidity as needed, even under stressed market conditions. As a further risk management strategy, Alberta Central maintains a well-diversified funding structure and develops external sources of liquidity outside the credit union system. Cash flow forecasting, liquidity stress testing and contingency planning are key elements of the liquidity risk management framework.

Alberta Central is the liquidity manager for the Alberta credit union system, and liquidity is strictly regulated by provincial regulations and guidelines. Policy and procedures are established to comply with regulations, guidelines and board of director approved risk appetite and tolerance. Alberta Central has established investment and lending policies to ensure the company is able to generate sufficient funds to meet all of its financial commitments in a cost effective manner as they occur. These policies are annually reviewed and approved by the board of directors. The internal Asset Liability Committee (ALCO) and Audit and Finance Committee review, on a regular basis, reporting on Alberta Central's current and forecasted liquidity position as well as the composition and amount of liquid assets held within the investment portfolio. Stress testing is performed to assess the amount by which the level of liquid assets could decrease while continuing to meet regulatory requirements; the results of these stress tests are reported to the ALCO and Audit and Finance Committee on a regular basis. On a biennial basis, the board of directors reviews and approves Alberta Central's *Stress Testing Policy*. The primary purpose of the *Stress Testing Policy* is to ensure that the organization maintains an adequate cushion of unencumbered high quality liquid assets held as insurance against a range of liquidity stress scenarios. This stress testing is also an important component in assessing Alberta Central's formal liquidity contingency plans. The results of the stress tests are reported to the board of directors annually. Alberta Central's Liquidity Management Plan is subject to annual review and approval by the board of directors and forms an important component of Alberta Central's liquidity management framework. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to liquidity risk.

RISK MANAGEMENT (CONTINUED)

Market Risk
Market risk is comprised of interest rate risk, foreign exchange risk and other price risk.

Interest Rate Risk
Interest rate risk is the risk that interest rate fluctuations may erode Alberta Central's earnings or economic value. Alberta Central's statement of financial position is comprised of interest-bearing assets and liabilities with different maturity dates, which expose Alberta Central to interest rate risk. Monitoring exposures to interest rate fluctuations and their potential impacts on interest margins is accomplished through interest rate scenario testing of assets, liabilities and equity against the effects of multiple possible interest rate increases and decreases. Alberta Central's interest rate risk policy defines specific tolerances for changes in net interest income and net economic value. Alberta Central also uses gap analysis and simulation modeling to analyze the effects of interest rate fluctuations on net interest income. This forecasting is then used in developing defensive strategies, where appropriate, to ensure any variations are managed within established tolerance limits. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to interest rate risk.

Foreign Exchange Risk
Foreign exchange risk is the risk that Alberta Central's earnings will be negatively affected by currency fluctuations. Alberta Central's foreign exchange policies and procedures specifically identify the types of transactions permitted, authorizations, limits, and monitoring and reporting requirements. Alberta Central is authorized to hold up to US$5 million, £0.5 million and €0.5 million in excess of, or short of, its foreign currency liabilities. Alberta Central's exposure to foreign exchange fluctuations is monitored on a daily basis . The board of directors has approved quantitative risk appetite and tolerance statements pertaining to foreign exchange risk.

Other Price Risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Alberta Central's portfolio consists primarily of short-term, highly liquid, high investment grade credit quality securities. Business is restricted to activities that are understood and that can be accurately valued. The board, on the recommendation of the Audit and Finance Committee, establishes written policies to ensure prudent investment standards are applied. Alberta Central's *Investment Policy* is reviewed and approved by Alberta Central's board annually. The policy is approved by Alberta TBF each year before being adopted by Alberta Central. Asset liability management is the responsibility of qualified treasury personnel with management oversight from an internal management committee, the ALCO, which reviews market risk exposure at quarterly meetings. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to other price risk.

RISK MANAGEMENT (CONTINUED)

Credit Risk – Commercial Lending

Credit risk is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligations. Alberta Central is exposed to credit risk in its lending operations and in its investment activities. Alberta Central's lending and investment policies addressing credit risk are reviewed and approved annually by the board of directors. Management regularly reviews credit procedures to ensure they provide relevant, appropriate guidance for the underwriting and administration of all types of loans. Alberta Central's lending activity is predominantly to serve the needs of Alberta credit unions and their members. Alberta Central's commercial lending activity is usually as a secondary syndication partner with credit unions; however, loans must meet Alberta Central's lending criteria without reliance on the due diligence process of any syndication partner. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to commercial lending credit risk.

Credit Risk – Investments

Alberta Central maintains high financial stewardship standards, ensuring that the investment portfolio consists of highly liquid, high investment grade credit quality that meets Alberta Central's standards for quality including being recognized by credit rating agencies. Risk within the investment portfolio is managed by diversifying counterparty risk in the derivative portfolio and individual investments. Investments are restricted to securities that are understood and that can be accurately valued. Strong risk management is applied as it is expected by stakeholders, regulators and rating agencies to support investment risk. In the *Investment Policy*, the board sets out key requirements for ensuring appropriate risk limits in the investment portfolio. These include investment types, minimum quality standards, authority levels, and reporting requirements. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to investment credit risk.

Operational Risk

Operational risk includes risk associated with conducting the business operations of Alberta Central. It is the risk of loss arising from ineffective or failed internal processes, technology or human performance or from external events. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory censure. Due to the nature of operational risk, it cannot be completely eliminated. Alberta Central manages operational risk through established policies and procedures and systems of internal controls.

IT risk is a component of operational risk. Alberta Central has developed a separate IT risk management framework to enhance its ability to identify, measure and respond to IT and cyber risks. While IT risk has been a component of operational risk since the inception of Alberta Central's ERM framework, management recognized the changing levels of risk caused by increasing malicious activity in the environment and responded by broadening the assessment, treatment and reporting of IT risk. The IT risk management framework was operationalized in 2016 and has been effective in identifying, assessing and responding to IT/cyber risks.

The board of directors has approved quantitative risk appetite and tolerance statements pertaining to operational risk.

Strategic Risk

Strategic risk is the risk to Alberta Central's earnings or capital arising from business decisions or flawed implementation of those decisions. This risk is a function of the compatibility between the organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. Alberta Central employs a number of means in order to ensure that its strategic plans are appropriate and relevant. The board of directors has approved qualitative risk appetite and tolerance statements pertaining to strategic risk.

Legal and Regulatory Risk

Legal and regulatory risk is the risk of loss due to failure to comply with legal and regulatory requirements. Alberta Central's activities have been subject to reviews and periodic on-site regulatory examinations. Alberta Central's Chief Compliance Officer maintains a legislative and regulatory compliance management system through which legislative and regulatory requirements are annually reviewed and reported. The effectiveness of the controls and processes utilized by the Chief Compliance Officer are annually reviewed and reported to the Audit and Finance Committee by internal audit. New policies and procedures are developed to address legislative and regulatory requirements as appropriate. The board of directors receives an annual compliance report in which any deficiencies and corresponding action plans are identified. The board of directors has approved qualitative risk appetite and tolerance statements pertaining to legal and regulatory risk.

Corporate Governance Risk

Corporate governance risk is the risk of financial and/or reputational impairment caused by lack of effectiveness of the board of directors and senior management. Alberta Central's organizational structures, policies and controls are designed to provide effective corporate governance. Effective corporate governance is attained through the diligence of knowledgeable and competent directors and senior management and through ongoing succession planning for management leadership roles. The board of directors has approved qualitative risk appetite and tolerance statements pertaining to corporate governance risk.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

MANAGEMENT OF CREDIT UNION CENTRAL ALBERTA LIMITED (ALBERTA CENTRAL) is responsible for the integrity and fair presentation of the financial information contained in this annual report. The financial statements have been prepared in accordance with International Financial Reporting Standards and, where necessary, include amounts which are based on the best estimates and judgment of management. Financial information appearing throughout this annual report is consistent with the financial statements.

Alberta Central's accounting and related financial controls are designed, and supporting procedures maintained, to provide reasonable assurance of the timely production of reliable and accurate financial information, the promotion of operational efficiency, that assets are safeguarded against loss from unauthorized use or disposition and liabilities are recognized. These supporting procedures include the careful selection and training of qualified staff, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines of business conduct and risk management throughout Alberta Central. The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all major aspects of Alberta Central's operations. The internal auditors have full access to, and meet regularly with, the Audit and Finance Committee (the committee) of the board of directors to review and discuss the results of their work.

Regulators conduct examinations and make such enquiries into the business affairs of Alberta Central as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that Alberta Central is in sound financial condition.

The committee, composed entirely of external directors, reviews the financial statements, including key management estimates and judgments material to the financial results before such financial statements are approved by the board of directors and submitted to the members of Alberta Central. The committee reviews the audit plans of the internal and external auditors, the results of their audits and management's response to any identified recommendations for improvements in internal control. The committee is also responsible for recommending the appointment of the external auditors to the board of directors.

KPMG LLP, the independent auditors, have audited the financial statements of Alberta Central in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to the members. The auditors have full and unrestricted access to, and meet periodically with, the committee both in the presence and absence of management to discuss their audit and related findings.

GRAHAM WETTER
PRESIDENT AND CEO

ANNE GILLESPIE
CHIEF FINANCIAL AND RISK OFFICER

February 23, 2017

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CREDIT UNION CENTRAL ALBERTA LIMITED

We have audited the accompanying financial statements of Credit Union Central Alberta Limited, which comprise the statement of financial position as at December 31, 2016, the statements of income and comprehensive income, members' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Credit Union Central Alberta Limited as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

February 23, 2017
Calgary, Canada

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31	2016	2015
(thousands of dollars)		
Financial income		
Interest on securities	22,460	21,781
Interest on loans	9,474	9,794
	31,934	31,575
Financial expenses		
Interest on members' deposits	15,065	15,970
Interest on loans and notes payable	1,878	662
	16,943	16,632
Net interest income	14,991	14,943
Provision for credit losses (NOTE 9)	(461)	(1,230)
Net interest income after provision for credit losses	14,530	13,713
Operating revenues (NOTE 4)	26,007	27,657
Operating expenses (NOTE 4)	(30,268)	(31,022)
Equity earnings in Celero Solutions (NOTE 8)	1,191	1,382
Income before the undernoted	**11,460**	**11,730**
Increase in estimated fair value of asset-backed commercial paper (ABCP) (NOTE 7)	10,561	1,000
Patronage dividends (NOTE 15)	(8,100)	(7,500)
Income before income taxes	13,921	5,230
Income taxes (NOTE 6)		
Current income tax expense	3,162	1,165
Deferred income tax (recovery)	(8)	(140)
	3,154	1,025
Net income	**10,767**	**4,205**
Other comprehensive income (loss)		
Items that will never be reclassified to net income:		
Remeasurements of net defined benefit pension asset (net of income tax (recovery) of $18; 2015 – ($12))	54	(82)
Items that are or may be reclassified to net income:		
Change in unrealized gains on available-for-sale securities (net of income tax (recovery) of ($333); 2015 – ($48))	(1,165)	(175)
Reclassification adjustments for realized gains on available-for-sale securities (net of income tax of $135; 2015 – $31)	498	112
	(613)	(145)
Comprehensive income	**10,154**	**4,060**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

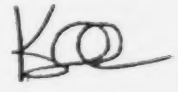
DECEMBER 31	2016	2015
(thousands of dollars)		
Assets		
Cash and cash equivalents (NOTE 19)	10,737	15,455
Securities (NOTE 7)	2,766,667	2,068,736
Loans (NOTE 9)	229,200	552,862
Derivative financial assets (NOTE 19)	10,538	4,150
Deferred income tax asset (NOTE 6)	584	594
Other assets (NOTE 10)	58,221	29,359
	3,075,947	2,671,156
Liabilities		
Members' deposits (NOTE 12)	2,397,039	2,217,143
Accounts payable and accrued liabilities	6,987	4,653
Notes payable and other liabilities (NOTE 13)	345,963	141,190
Derivative financial liabilities (NOTE 19)	10,538	4,150
	2,760,527	2,367,136
Members' Equity		
Common share capital (NOTE 14)	244,084	237,835
Retained earnings	70,899	65,135
Accumulated other comprehensive income	437	1,050
	315,420	304,020
	3,075,947	2,671,156

Commitments (NOTE 16)
Events after the reporting date (NOTE 22)

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the board of directors

BRETT OLAND
CHAIR, BOARD OF DIRECTORS



KEN MORRIS
CHAIR, AUDIT AND FINANCE COMMITTEE

STATEMENT OF MEMBERS' EQUITY

	SHARE CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL EQUITY
(thousands of dollars)				
Balance as at January 1, 2015	224,928	65,600	1,195	291,723
Net income	—	4,205	—	4,205
Change in unrealized gains on available-for-sale securities (net of income tax (recovery) of ($17))	—	—	(63)	(63)
Remeasurements of net defined benefit pension asset (net of income tax (recovery) of ($12))	—	—	(82)	(82)
Issue of share capital (NOTE 14)	12,907	—	—	12,907
Share capital dividends (net of income tax (recovery) of ($1,304)) (NOTE 15)	—	(4,670)	—	(4,670)
Balance as at December 31, 2015	**237,835**	**65,135**	**1,050**	**304,020**
Net income	—	10,767	—	10,767
Change in realized and unrealized gains and losses on available-for-sale securities (net of income tax (recovery) of ($198))	—	—	(667)	(667)
Remeasurements of net defined benefit pension asset (net of income tax of $18)	—	—	54	54
Issue of share capital (NOTE 14)	6,249	—	—	6,249
Share capital dividends (net of income tax (recovery) of ($1,490)) (NOTE 15)	—	(5,003)	—	(5,003)
Balance as at December 31, 2016	**244,084**	**70,899**	**437**	**315,420**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31	2016	2015
(thousands of dollars)		
Cash resources provided by (used in):		
Operating activities		
Net income	10,767	4,205
Adjustments for:		
Depreciation, amortization and loss on disposal of capital assets	864	993
Increase in estimated fair value of ABCP (NOTE 7)	(10,561)	(1,000)
Accrued interest on impaired loans	182	(70)
Provision for credit losses (NOTE 9)	461	1,230
Interest income on securities	(22,460)	(21,781)
Interest expense on loans and notes payable	1,878	662
Equity earnings in Celero Solutions (NOTE 8)	(1,191)	(1,382)
	(20,060)	(17,143)
Changes in non-cash operating components		
Accounts receivable, prepaid expenses and pension surplus	(29,351)	(1,681)
Accounts payable and accrued liabilities	1,828	(1,446)
Deferred taxes	10	(153)
Increase (decrease) in members' deposits	179,896	(58,761)
Net decrease (increase) in loans	323,019	(139,753)
Income taxes refunded (paid)	1,996	(523)
	457,338	(219,460)
Financing activities		
Increase in notes payable	204,636	116,240
Interest paid on loans, notes payable and other liabilities	(1,741)	(675)
Issuance of share capital, net of redemptions	6,249	12,907
Payment of share capital dividends	(6,493)	(5,974)
	202,651	122,498
Investing activities		
(Increase) decrease in securities	(689,178)	26,909
Interest received on securities	23,655	21,506
Distribution of Celero Solutions' prior year net income	1,168	656
Return of capital on investment in Celero Solutions	—	323
Acquisition of capital and intangible assets	(352)	(3,429)
	(664,707)	45,965
Decrease in cash resources	(4,718)	(50,997)
Cash and cash equivalents, beginning of year	15,455	66,452
Cash and cash equivalents, end of year	10,737	15,455

The accompanying notes are an integral part of these financial statements.

1. GENERAL INFORMATION

Credit Union Central Alberta Limited (operating as Alberta Central) is a limited liability company and is incorporated and domiciled in Canada. Alberta Central is governed by the *Credit Union Act of Alberta* and is also subject to the provisions of the *Cooperative Credit Associations Act of Canada* (Note 22).

The address of its registered office is:
350N, 8500 Macleod Trail S.E
Calgary, Alberta

Alberta Central is the liquidity and payments manager and trade association for credit unions in Alberta. Alberta Central's financial statements comprise the accounts of Alberta Central and its proportionate share of the assets, liabilities, revenue and expenses of its joint arrangement, Credit Union Payment Services (CUPS) (Note 3h). CUPS provides payment services and related support services to the members of its owners, Alberta Central (50 percent), and SaskCentral (50 percent) as well as to other organizations. The financial statements also comprise Alberta Central's equity share of the income of its significantly influenced associate, Celero Solutions (Celero). Celero provides information technology services to credit unions, its owners, Alberta Central (33.3 percent), SaskCentral (33.3 percent) and Manitoba Central (33.3 percent), and to other organizations (Note 8). The registered place of business for both CUPS and Celero is Calgary, Alberta.

2. BASIS OF PREPARATION

a) Statement of compliance

Alberta Central prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

These financial statements have been approved for issue by the board of directors on February 23, 2017.

b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for the following:

- held for trading financial instruments are measured at their fair value
- available-for-sale financial assets are measured at their fair value, except as described in Note 20
- defined benefit pension plan assets and liabilities are measured at their present value

c) Currency

The financial statements are presented in Canadian dollars, which is also Alberta Central's functional currency.

2. BASIS OF PREPARATION (CONTINUED)

d) Significant estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Estimates and assumptions are evaluated on a continuous basis, and are based on past experiences and other factors, including expectations with regard to future events. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year are described below:

Fair value of financial instruments

The fair value of financial instruments where no active market exists, or where quoted prices are not otherwise available, is determined by using valuation techniques. In these cases, the fair value is estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions regarding credit risk, market liquidity and timing of future cash flows. The use of valuation techniques in calculating the fair value of Alberta Central's securities is discussed further in Note 20.

Provision for credit losses

A loan loss provision is estimated for both specific loans that are individually significant (specific loan loss provision) as well as the collective portfolio (non-specific loan loss provision). In assessing whether specific and non-specific loan impairment exists, Alberta Central management makes estimates and assumptions as to whether there is any observable data indicating an impairment trigger and whether the loss event has an impact on the estimated future cash flows of the loan.

Furthermore, estimates and assumptions are made by management in determining the specific and non-specific loan loss provisions. To determine the specific loan loss provisions, management must make assumptions regarding the creditworthiness of individual borrowers, the timing of receipt of future cash flows (repayment from the borrowers), and estimate the net realizable value and timing of the realization of the collateral underlying the loan. As credit unions are Alberta Central's syndicate partner in all commercial lending activity, the non-specific loan loss provision is determined by reviewing historical trends in delinquency rates and loan provisioning levels at credit unions as well as management's assessment of the impact of recent events and changes in industry and economic conditions. Refer to Note 9 for the carrying value of the allowance for credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are summarized below and have been consistently applied to all years presented.

a) Revenue recognition

Interest income on loans and securities is recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the expected life of the financial asset. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset to its net carrying amount. Interest on impaired financial assets continues to be recognized through the unwinding of the discount. Membership dues income is recognized on a straight-line basis over the year. Other revenue is recognized as services are provided, when the amount can be reliably measured and deemed collectible.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Provision for credit losses

Alberta Central reviews its financial assets, specifically its commercial loan and mortgage portfolio, and securities, for impairment on a quarterly and annual basis. A financial asset or group of financial assets is impaired if there is objective evidence that one or more events that occurred after the initial recognition of the asset(s) has had an impact on the estimated future cash flows of the asset(s) and the impact can be reliably estimated. Alberta Central first assesses whether objective evidence of impairment exists individually for assets that are individually significant, and collectively for assets that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed asset, the asset is grouped with others that have similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Loans

Alberta Central maintains specific and non-specific loan loss provisions established as a result of reviews at an individual loan, and loan portfolio, level. A specific provision is established by reviewing the creditworthiness of individual borrowers and the value of the collateral underlying the loan. The specific provision is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognized in the provision for credit losses in the statement of income and comprehensive income.

A non-specific provision is established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio for which a specific provision cannot yet be determined. A non-specific provision is based on observable data such as historical credit loss experience, known portfolio risks, and current economic conditions. As credit unions are Alberta Central's syndicate partner in all commercial lending activity, the non-specific loan loss provision is determined by reviewing historical trends in delinquency rates and loan provisioning levels at credit unions as well as management's assessment of the impact of recent events and changes in economic conditions. Delinquency rates are regularly benchmarked against actual outcomes to ensure that management's assumptions regarding delinquency remain appropriate. The non-specific loan loss provision is recognized through the use of an allowance account and is recognized in the provision for credit losses in the statement of income and comprehensive income.

Alberta Central writes off amounts charged to the allowance account against the carrying amount of an impaired loan, either partially or in full, when there is no realistic prospect of future recovery in respect to the amounts written off. When loans are secured, this is generally when all collateral has been liquidated and no future cash flows are expected.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the loan or allowance. The amount of the reversal is recognized in the provision for credit losses on the statement of income and comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities
Alberta Central periodically assesses impairment of all of its securities, except those classified as held for trading. Management considers significant financial difficulty of the issuer, the disappearance of an active market for a security due to financial difficulties, or a significant or prolonged decline in the fair value of an available-for-sale equity security below its cost as objective evidence of impairment resulting in the recognition of an impairment loss. For securities measured at amortized cost, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the security's original effective interest rate. For securities measured at cost, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar security. For securities classified as available-for-sale, the amount of the cumulative loss in fair value recognized in accumulated other comprehensive income and reclassified to net income is the difference between the security's acquisition cost and current fair value, less any previously recognized impairment.

Impairment losses can only be reversed on securities measured at amortized cost and debt securities classified as available-for-sale, and only when the decrease in impairment loss can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal is recognized in net income.

c) Personnel

Short-term employee benefits
Short-term employee benefits include all benefits and payments made on behalf of Alberta Central personnel including wages, salaries, vacation, medical and dental benefits and short-term incentive compensation, and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term incentive plans provided Alberta Central has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

Post-employment benefits
Alberta Central's post-employment benefit program consists of both a defined contribution and defined benefit pension plan.

i. Defined contribution pension plan
Alberta Central contributes annually to a defined contribution pension plan for employees. A defined contribution plan is a pension plan under which Alberta Central pays fixed contributions to a third party and has no legal or constructive obligation to pay further amounts. The contributions are recognized as personnel expense when they are due in respect of service rendered to the end of the reporting period.

ii. Defined benefit pension plan
The defined benefit pension plan is a pension plan for certain executive management. A defined benefit pension plan defines an amount of pension benefit that an executive will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The amount of the defined benefit asset or liability recognized in the statement of financial position is equal to the present value of the defined benefit obligation as at the year-end reduced by the fair value of plan assets. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in Canadian dollars, and that have terms to maturity approximating the terms of the related pension asset or liability. Re-measurements of the net defined benefit asset or liability, which comprise actuarial gains (losses) and the return on plan assets, are recognized immediately in other comprehensive income in the statement of income and comprehensive income. Alberta Central determines the net interest income or expense on the net defined benefit asset or liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit asset or liability. The net interest income or expense is recognized in interest on members' deposits and current service costs are recognized in personnel expense within operating expenses in the statement of income and comprehensive income.

Long-term employee benefits
Alberta Central's obligation under a long-term incentive plan for executive management is accrued as services are rendered.

d) Income taxes
Income tax expense comprises both current and deferred income tax.

Current income tax
Current income tax is the expected tax payable (receivable) on the taxable income for the year. It is calculated on the basis of the applicable tax law in Alberta using rates enacted or substantially enacted at year-end. Current income tax is recognized as an expense (recovery) in the statement of income and comprehensive income except to the extent it relates to items that are charged (credited) in other comprehensive income or directly to equity. In such circumstances, it is charged (credited) to other comprehensive income or equity.

Deferred income tax
Alberta Central follows the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized on temporary differences arising between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The deferred tax assets and liabilities are calculated using enacted or substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse.

Deferred tax assets are recognized for unused tax losses, tax credits and other temporary differences when it is probable that future taxable income will be available against which these temporary differences can be utilized.

Any changes in deferred tax assets or liabilities during the year are reflected in income tax expense on the statement of income and comprehensive income unless they relate to items that are recognized in other comprehensive income, accumulated other comprehensive income, or equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Foreign currency translation

Transactions denominated in a foreign currency are translated into Canadian dollars using exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the closing rate as at the reporting date. Foreign currency differences arising on translation of foreign currency transactions and monetary items are recognized in net income.

f) Cash and cash equivalents

Cash and cash equivalents consist of cash and restricted cash pledged as described in Note 19.

g) Investment in Celero

Alberta Central uses the equity method to account for Celero over which it exercises significant influence. Significant influence is the power to participate in, but not control or jointly control, the financial and operating policy decisions of the investee. Under this method, the investment is initially recognized at cost and is adjusted for Alberta Central's share of income and distributions received from the investee. The investment is written down to recognize losses, if any, in its value. Alberta Central assesses impairment of its investment in Celero on an annual basis and losses, if any, are recognized in the statement of income and comprehensive income.

For transactions and events sharing similar circumstances, consistent accounting policies are used to ensure comparability when preparing the financial statements. Financial information for Celero is included in Note 8.

h) Investment in CUPS

Alberta Central has a 50 percent interest in the CUPS joint arrangement. Alberta Central has joint control over the CUPS joint arrangement as it has 50 percent representation in the governance structure and all decisions require a majority vote. As CUPS is legally structured as an unincorporated entity, its assets and liabilities are primarily those of the parties to the joint arrangement. Accordingly, Alberta Central accounts for its investment in CUPS as a joint operation, and its proportionate share of CUPS' assets, liabilities, revenue and expenses are combined with similar items, line by line, in its financial statements.

Intercompany gains on transactions between Alberta Central and the joint operation are eliminated to the extent of Alberta Central's interest in the joint operation. Intercompany losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

During 2016, the boards of directors of Alberta Central and SaskCentral approved the transfer of each central's respective share of the joint venture's payments business and related assets to a proposed national payments company in exchange for proportional ownership by Alberta and Saskatchewan credit unions. The approvals are subject to a number of conditions, including regulatory approvals where applicable.

In addition to Credit Union Payment Services, the proposed new entity would be formed by merging the Digital Banking and Payments Division of Central 1, the payments division of Credit Union Central of Manitoba and the Payments compliance and strategy functions at Canadian Credit Union Association into a new organization. The merger also requires approval by the governance and where applicable, membership bodies, of these organizations. There is no assurance that these approvals will be received and accordingly no assurance that the transaction will proceed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Capital and intangible assets

Capital assets are recognized at historical cost less accumulated depreciation. Intangible assets consist of acquired operating software assets recognized at historical cost less accumulated amortization. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives:

Computer hardware	3 years
Equipment	3 years
Furniture	10 years
Leasehold improvements	Term of the lease to 2021
Intangible assets	3-5 years

Depreciation commences on capital assets once the assets are available for use. The residual values and useful lives of the capital assets are reviewed, reassessed and adjusted, if appropriate, each reporting period.

Capital and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An asset is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Fair value is estimated based on recent transactions for similar assets within the same industry. Value in use is estimated based on discounted net cash flows from the continuing use and ultimate disposal of an asset.

j) Dividends

Share dividends on Alberta Central's member shares are recognized in equity in the period in which they are declared by Alberta Central's board of directors.

Patronage dividends are recognized in net income, in the period in which they are declared by Alberta Central's board of directors.

k) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the statement of income and comprehensive income on a straight-line basis over the period of the lease.

l) Financial assets and liabilities

All financial assets are classified as held for trading, available-for-sale, held to maturity or loans and receivables. All financial liabilities are classified as held for trading or other financial liabilities. Management determines the classification of its instruments at initial recognition. Financial assets and liabilities are recognized when Alberta Central becomes a party to the contractual provisions of the instrument. Alberta Central uses settlement date accounting for regular-way trades, which are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Held for trading
A financial asset or liability must be classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivative instruments must be classified as held for trading and measured at fair value unless they are designated as an effective hedging instrument. Alberta Central has no derivatives designated as accounting hedges. Alberta Central may designate any financial asset or liability as held for trading if certain specified conditions are met.

Alberta Central has classified cash and cash equivalents, certain securities, derivative financial assets and derivative financial liabilities as held for trading. Certain securities have been designated as held for trading as Alberta Central manages and evaluates the performance of these securities together on a fair value basis, and information about the group of securities is provided internally on that basis to key management. All financial assets and liabilities classified as held for trading are initially and subsequently measured at fair value with gains (losses) recognized in net income.

Available-for-sale
Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Alberta Central has classified certain securities as available-for-sale.

Financial assets classified as available-for-sale are initially and subsequently measured at fair value with unrealized gains (losses) recognized in other comprehensive income, except for impairment losses, which are recognized in net income. Equity securities classified as available-for-sale which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost. Their fair value cannot be reliably measured when the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. Changes in fair value are recorded in accumulated other comprehensive income in the statement of financial position. When unrealized gains (losses) become realized through sale or impairment, they are reclassified from accumulated other comprehensive income to net income.

Held to maturity
Held to maturity financial assets are those with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. If Alberta Central were to sell other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available-for-sale. Alberta Central has not classified any financial assets as held to maturity as at December 31, 2016.

Held to maturity financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Alberta Central has classified its accounts receivable, items in transit, certain securities and loans as loans and receivables.

Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other financial liabilities
Financial liabilities that do not fall under the held for trading category are classified as other financial liabilities. Alberta Central has classified its accounts payable and accrued liabilities, members' deposits, and notes payable and other liabilities as other financial liabilities.

Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Accumulated other comprehensive income
Accumulated other comprehensive income is included on the statement of financial position as a separate component of members' equity and includes re-measurements of the net defined benefit pension asset or liability and unrealized gains (losses) on available-for-sale securities.

Transaction costs
Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading and are capitalized upon initial recognition for all other financial instruments.

Determination of fair value
For financial instruments traded in an active market, fair value is determined by reference to quoted market prices or dealer price quotations. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. Where independent quoted market prices are not available, fair value is determined by reference to recent arm's length market transactions for similar instruments, the current fair value of other instruments having substantially the same terms, conditions and risk characteristics or through the use of other valuation techniques.

With the use of valuation techniques, fair value is estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the date of the statement of financial position. Alberta Central uses valuation techniques primarily to value its derivatives.

Derecognition
Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of ownership of the assets have been transferred. Financial liabilities are derecognized when the obligation has been discharged, cancelled or expired.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Standards and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing these financial statements. The standards that may be relevant to Alberta Central are described below.

IFRS 9 – "Financial instruments"

This new standard is the result of the IASB's project to replace IAS 39 *"Financial instruments: recognition and measurement"*. The new standard introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. Furthermore, IFRS 9 brings together all three phases of the financial instruments project:

- Classification and measurement
- Impairment (expected loss model)
- Hedge accounting

IFRS 9 introduces a new model for the measurement of impairment losses on all financial instruments subject to impairment accounting. The expected loss impairment model replaces the current incurred loss model and is based on a forward looking approach which includes earlier recognition of losses. An amount equal to 12 months expected credit losses will be recorded for assets where there has not been a significant increase in credit risk since initial recognition. An amount equal to the lifetime expected losses will be recorded for assets where there has been a significant increase in credit risk since initial recognition.

The final version of IFRS 9 was issued in 2014, with implementation effective for annual periods beginning on or after January 1, 2018. Alberta Central does not plan to adopt this standard early and is assessing the impact on Alberta Central's financial reporting and disclosure.

IFRS 15 – "Revenue from contracts with customers"

The new standard is a result of a joint project between the IASB and the Financial Accounting Standards Board (FASB) and is converged with FASB ASC Topic 606. It replaces IAS 18 *"Revenue"*, IAS 11 *"Construction contracts"*, IFRIC 13 *"Customer loyalty programmes"*, IFRIC 18 *"Transfer of assets from customers"* and SIC-31 *"Revenue – barter transactions involving advertising services"*. It establishes a comprehensive framework for determining if, how much and when revenue is recognized.

The standard was issued by the IASB in 2014, with implementation effective for annual periods beginning on or after January 1, 2018. Alberta Central does not plan to adopt this standard early and is assessing the impact on its financial reporting and disclosure.

IFRS 16 – "Leases"

The new standard replaces IAS 17 *"Leases"* and establishes principles for the recognition, presentation, and measurement of leases for both lessees and lessors. From the perspective of the lessee, the new standard requires the recognition of lease assets and lease liabilities on the balance sheet for most leases. Lessees will also recognize depreciation expense on lease assets as well as interest expense on lease liabilities in the statement of income. IFRS 16 applies only to contractual lease components and excludes any specific service elements.

The standard was issued by the IASB in 2016, with implementation effective for annual periods beginning on or after January 1, 2019. Alberta Central does not plan to adopt this standard early and is assessing the impact on its financial reporting and disclosure.

4. OPERATING REVENUES AND OPERATING EXPENSES

	2016	2015
Operating revenues		
Credit Union Payment Services (CUPS)	11,561	11,935
Member dues	5,964	6,308
Financial and ancillary services	3,610	4,459
Other	4,872	4,955
	26,007	**27,657**
Operating expenses		
Personnel	12,865	13,304
Administration and other	10,193	9,854
Property and equipment	4,504	5,097
Organization	2,706	2,767
	30,268	**31,022**

Included within financial and ancillary services operating revenue is $76 (2015 – $649) of foreign exchange gains. Other operating revenue includes partnership distributions of $1,239 (2015 – $1,151) from an investment measured at cost, net of distribution of these amounts to credit unions. Operating expenses include $10,579 (2015 – $10,843) relating to Alberta Central's share of CUPS' expenses (Note 3h).

Personnel expenses consist of the following:

	2016	2015
Salaries and other short-term employee benefits	11,390	11,807
Post-employment benefits	748	763
Long-term employee benefits	373	385
Termination benefits and retiring allowances	354	349
	12,865	**13,304**

5. PENSION PLANS

a) Defined contribution pension plan

Alberta Central contributes annually to a defined contribution pension plan for employees. The annual pension expense of $487 (2015 – $530) is included in personnel expense (Note 4).

b) Defined benefit pension plan

Alberta Central also contributes annually to a defined benefit pension plan for certain executive management which qualifies as a retirement compensation arrangement under the *Income Tax Act*. This plan is fully funded by Alberta Central. Concentra Trust is the custodian of the plan. An actuarial valuation of the defined benefit obligation was performed as of December 31, 2016.

The fair value of plan assets and defined benefit obligation is as follows:

	2016	2015
Fair value of plan assets, end of year	4,788	4,289
Defined benefit obligation, end of year	3,903	3,900
Pension surplus (NOTE 10)	**885**	**389**

The amounts recognized in the statement of income and comprehensive income on a before-tax basis are as follows:

	2016	2015
Included in net income:		
Current service cost	(219)	(216)
Net interest income	20	19
	(199)	**(197)**
Included in other comprehensive income:		
Actuarial gains arising from experience adjustments and changes in financial assumptions	251	66
Remeasurements of net defined benefit pension asset	(179)	(160)
	72	**(94)**

6. INCOME TAXES

The combined federal and provincial substantively enacted income tax rate applicable to Alberta Central is 22.9% percent (2015 – 21.8 percent). Income taxes calculated at substantively enacted rates differ from the provision included in the statement of income and comprehensive income for the following reasons:

	2016	2015
Income taxes at substantively enacted rates	3,194	1,138
Increase (decrease) in income taxes resulting from:		
Impact of rate changes on temporary differences	6	(91)
Non-deductible amounts	5	23
Other	(51)	(45)
Provision for income taxes	**3,154**	**1,025**

7. SECURITIES

	CLASSIFICATION	2016	2015
Government	Available-for-sale	397,042	260,761
Corporate	Available-for-sale	2,174,480	1,603,687
	Held for trading	185,081	193,820
		2,359,561	1,797,507
Canadian Credit Union Association (CCUA) and related entities	Available-for-sale	497	632
Central 1 subordinated debt	Loans and receivables	7,000	6,000
Mortgage pooling funds	Loans and receivables	199	273
		2,764,299	2,065,173
Totals	Available-for-sale	2,572,019	1,865,080
	Held for trading	185,081	193,820
	Loans and receivables	7,199	6,273
		2,764,299	2,065,173
Accrued interest receivable		2,368	3,563
		2,766,667	**2,068,736**

As at December 31, 2016, $257,849 (2015 – $251,072) of securities were pledged to Central 1 under the terms of the *Credit Union System Group Clearing Agreement* (Note 13) and are restricted from Alberta Central's use.

7. SECURITIES (CONTINUED)

Alberta Central's mortgage pooling funds represent an investment in Canadian-based residential mortgages and are regulated under the Office of the Superintendent of Financial Institutions (OSFI) Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* which includes guidelines on financial reporting. All mortgages in the pool are Canada Mortgage and Housing Corporation (CMHC) insured mortgages. The mortgages were acquired by Alberta Central with the following amortization periods:

Amortization Period	**Percent of Total**
10-14 years	0.0 percent
15-19 years	6.3 percent
20-24 years	31.9 percent
25-29 years	35.4 percent
30-34 years	24.5 percent
35 years and greater	1.9 percent

As all mortgages within the mortgage pool are insured, an economic downturn would have a limited impact on the carrying value of the mortgage pool.

As at December 31, 2016, corporate held for trading securities included ABCP as outlined in the table below.

	2016		2015	
	FACE VALUE	**FAIR VALUE**	**FACE VALUE**	**FAIR VALUE**
Notes matured or sold subsequent to December 31	131,201	128,175	181,402	166,822
Tracking notes	90	2	113	76
	131,291	128,177	181,515	166,898
Accrued interest	573	573	2,362	144
	131,864	**128,750**	**183,877**	**167,042**

All of the ABCP investments have been designated as held for trading financial assets and are carried at fair value as Alberta Central manages and evaluates performance of the group of ABCP investments together on a fair value basis. Alberta Central recorded an increase in the estimated fair value of ABCP during the year of $10,561 (2015 – $1,000) in the statement of income and comprehensive income.

Principal payments of $49,314 (2015 – $5,577) were received and interest of $1,542 (2015 – $1,100) earned on ABCP during the year. Notes with face value of $910 and a fair value of $nil were written off during the year. See Note 22 regarding sales and maturities of ABCP subsequent to year-end. The fair value of all ABCP at December 31, 2016 (excluding tracking notes) was determined on the basis of proceeds received in January 2017.

8. INVESTMENT IN CELERO

Alberta Central has a 33.3 percent (2015 – 31.4 percent) interest in Celero (Note 10). While Celero is legally structured as a joint venture, it does not qualify as such for accounting purposes as Alberta Central does not have joint control. Joint control is not achieved as Alberta Central holds two of six positions in Celero's governance structure. Accordingly, Alberta Central accounts for its investment in Celero using the equity method. Under the terms of the *Joint Venture Agreement* and as directed by Celero's governing body, the net income of Celero is distributed to (contributed by) Alberta Central in proportion to its ownership interest in Celero.

Summarized financial information of Celero is as follows:

	2016	2015
Current assets	16,780	20,036
Non-current assets	18,611	19,133
Current liabilities	15,175	15,704
Non-current liabilities	8,567	11,168
Revenue	79,210	82,868
Income before equity income in Everlink	2,778	3,725
Net income and comprehensive income	3,573	4,404

The movement in Alberta Central's interest in Celero during the year was as follows:

	2016	2015
Carrying value at January 1	3,881	3,478
Share of Celero's net income and comprehensive income	1,191	1,382
Share of distribution of Celero's prior year net income and comprehensive income	(1,168)	(656)
Return of capital	—	(323)
Carrying value as at December 31	**3,904**	**3,881**

Alberta Central is liable in proportion to its ownership interest in Celero, for all of Celero's covenants and obligations.

9. LOANS

	2016	2015
Credit unions	5,129	345,127
Commercial loans and mortgages	213,130	199,221
Employee mortgages	5,440	4,650
Celero (NOTE 17)	3,161	3,611
Cooperatives	4,990	1,656
	231,850	554,265
Accrued interest receivable	751	1,094
	232,601	555,359
Less allowances on commercial loans and mortgages:		
Specific	(1,501)	(997)
Non-specific	(1,900)	(1,500)
	229,200	**552,862**

Alberta Central's commercial loans and mortgages portfolio includes $11,332 (2015 – $5,783) in impaired loans. The following is a reconciliation of the allowance on impaired commercial loans and mortgages:

	2016	2015
Balance, beginning of the year	2,497	4,277
Increase in non-specific loan loss provision	400	400
Increase in specific loan loss provision	730	830
Write-off loan principal and accrued interest	(226)	(3,010)
Balance as at December 31	**3,401**	**2,497**

Recoveries during 2016 of $669 in loan principal previously written off were included in the provision for credit losses in the statement of income and comprehensive income. Included in accrued interest receivable is $158 (2015 – $340) of interest on impaired and past due loans.

Employee mortgages are Alberta-based primary residence mortgages. All mortgages were originated (not acquired) by Alberta Central with an amortization period of 25 years (2015 – 25 years). CMHC insured mortgages comprise $1,767 (2015 – $1,405) and 32.5 percent (2015 – 30.2 percent) of employee mortgages. The average loan-to-value ratio for newly originated uninsured employee mortgages during 2016 was 63.2 percent (2015 – 70.1 percent). As uninsured employee mortgages do not exceed a loan to value ratio of 80 percent at origination of the mortgage, an economic downturn would have a limited impact on their carrying value.

10. OTHER ASSETS

	2016	2015
Items in transit	45,546	19,369
Investment in Celero – equity method (NOTE 8)	3,904	3,881
Accounts receivable and prepaid expenses	4,376	1,698
Capital and intangible assets (NOTE 11)	3,510	4,022
Pension surplus (NOTE 5)	885	389
	58,221	**29,359**

11. CAPITAL AND INTANGIBLE ASSETS

	EQUIPMENT	LEASEHOLD IMPROVEMENTS	FURNITURE	INTANGIBLE ASSETS	TOTAL
As at December 31, 2016					
Cost	2,899	6,865	1,344	3,942	15,050
Accumulated depreciation/amortization	(2,448)	(5,150)	(313)	(3,629)	(11,540)
Net book value	**451**	**1,715**	**1,031**	**313**	**3,510**
As at December 31, 2015					
Cost	3,931	6,785	1,344	5,831	17,891
Accumulated depreciation/amortization	(3,438)	(4,817)	(171)	(5,443)	(13,869)
Net book value	**493**	**1,968**	**1,173**	**388**	**4,022**

Depreciation/amortization expense of $864 (2015 – $841) is included in property and equipment expense (Note 4). During the year, capital purchases of $352 (2015 – $3,429) were made. Asset retirements totaled $3,193 (2015 – $3,211) resulting in losses on disposal of $nil (2015 – $152).

12. MEMBERS' DEPOSITS

	2016	2015
Current accounts and demand deposits	153,307	164,881
Money market deposits	537,312	332,527
Statutory liquidity deposits	1,703,714	1,717,210
	2,394,333	2,214,618
Accrued interest payable	2,706	2,525
	2,397,039	**2,217,143**

Alberta credit unions are required by Alberta Central's bylaws to maintain nine percent of their liabilities in statutory liquidity deposits and common share capital of Alberta Central.

13. NOTES PAYABLE AND OTHER LIABILITIES

	2016	2015
Commercial paper	253,933	109,958
Items in transit	92,030	31,232
	345,963	**141,190**

Alberta Central is authorized to issue commercial paper to a maximum of $450,000. Amounts bear interest at a weighted-average rate of 0.91 percent (2015 – 0.89 percent) and have a weighted average term of 37 days (2015 – 26 days).

Under an agreement with Central 1, effective July 6, 2011, Alberta Central has a line of credit to a maximum of $100,000. Pursuant to the terms of the *Credit Union System Group Clearing Agreement* (Note 19), Alberta Central is obliged to pledge securities to Central 1 as the group clearer with a Bank of Canada collateral value equal to at least one percent of Alberta credit union system assets to secure this line of credit (Note 7). Amounts are due on demand and bear interest at the Bank of Canada overnight rate, or such other rate charged by the Bank of Canada, for Canadian dollar advances. For US dollar advances, amounts bear interest at the rate charged to Central 1 by the correspondent US bank. As at December 31, 2016, Alberta Central had drawn $nil (2015 – $nil) against the line of credit.

14. COMMON SHARE CAPITAL

Authorized:
- Common shares held by Class A voting members – unlimited number at 5 dollars per share
- Common shares held by Class B non-voting members – unlimited number at 5 dollars per share

Issued and outstanding:
- Common shares held by Class A voting members – 48,563,403 shares (2015 – 47,313,504)
- Common shares held by Class B non-voting members – 253,475 shares (2015 – 253,495)

Common shares are held by Alberta credit unions (Class A members) and other non-credit union organizations (Class B members).

	2016	2015
Common shares held by Class A members:		
Balance, beginning of year	236,568	223,661
Issued, for cash (1,249,899 shares; 2015 – 2,581,357 shares)	6,249	12,907
Balance as at December 31	242,817	236,568
Common shares held by Class B members:		
Balance, beginning of year	1,267	1,267
Redeemed, at par (20 shares; 2015 – 20 shares)	—	—
Balance as at December 31	1,267	1,267
Total common shares	**244,084**	**237,835**

Alberta Central's bylaws require member credit unions to maintain a minimum of one percent of their assets as common share capital in Alberta Central.

14. COMMON SHARE CAPITAL (CONTINUED)

Alberta Central's bylaws require that Class B members maintain common shares in Alberta Central, the total par value of which is not less than $100 dollars.

All requests for redemption of common share capital require approval from Alberta Central's board of directors. The redemption price of all common shares is their par value of five dollars per share.

15. DIVIDENDS

Share capital
Share capital dividends of $6,493 were declared and paid based on Alberta Central's prior year results (2015 – $5,974). Both Class A and B members are eligible to participate in the receipt of share capital dividends from Alberta Central.

Patronage
Patronage dividends (bonus interest) of $8,100 (2015 – $7,500) were declared and paid based on credit unions' statutory liquidity deposits in Alberta Central.

All dividends require approval from Alberta Central's board of directors (Note 22).

16. COMMITMENTS

Alberta Central is party to a non-cancellable premises lease agreement ending December 31, 2021 which provides a renewal option for a further five years on the same terms and conditions. The future minimum lease payments for base rent under the non-cancellable operating lease are as follows:

One year or less (2017)	1,390
Later than one year and no later than five years (2018 - 2021)	5,883
Total future obligations under premises operating lease to 2021	7,223

Alberta Central's lease payments are recognized as an expense in the year within property and equipment expense (Note 4).

	2016	2015
Minimum lease payments	1,390	1,645
Contingent rent	1,145	1,515
Total	**2,535**	**3,160**

Contingent rent payments on the premises lease are based on a pro rata share of the operating costs of the lease premises, which may increase or decrease annually.

Alberta Central has a non-cancellable premises sublease agreement with Celero ending December 31, 2021 for future minimum lease receipts for base rent totaling $1,859 (2015 – $2,213).

17. RELATED PARTY TRANSACTIONS

Alberta Central has transactions with various related parties throughout the normal course of business. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a) Transactions with CUPS

During the year, Alberta Central charged CUPS various administrative, property rental, interest and float fees totaling $4,614 (2015 – $4,233). During the year, CUPS charged Alberta Central various interest, distribution and administrative fees totaling $455 (2015 – $559). As at December 31, 2016, Alberta Central had a net receivable of $3,626 from CUPS (2015 – $112) in respect of operating activities.

CUPS has a line of credit at Alberta Central to a maximum of $10,000, which bears interest at the Canadian prime business rate. As at December 31, 2016, CUPS had drawn $nil (2015 – $nil) on the line of credit.

b) Transactions with Celero

During the year, Alberta Central charged Celero $3,002 (2015 – $3,148) for interest and various administrative, accounting and facilities services. Celero charged Alberta Central $1,136 (2015 – $1,402) for information technology services. As at December 31, 2016, Alberta Central had a net receivable of $84 from Celero (2015 – $146 payable) in respect of operating activities.

Under a *Joint Venture Lender Agreement* dated December 17, 2007, Celero has a line of credit facility with Alberta Central to a maximum of $10,000 with interest payable monthly at the Canadian prime business rate. Under the terms of the same agreement, Celero also has a $5,000 overdraft facility with Alberta Central bearing interest at the Canadian prime business rate. Alberta Central is the lead lender of the above-noted loan facilities; however, SaskCentral and Manitoba Central, as joint venture partners, share in the provision and repayment of funds for these facilities in proportion to their ownership interest. As at December 31, 2016, Celero had drawn $nil (2015 – $nil) on the line of credit facility and $nil (2015 – $nil) on the overdraft facility. The facilities are secured by a *General Security Agreement* over all assets of Celero.

Loans of $3,161 (2015 – $3,611) (Note 9) are repayable from Celero to Alberta Central with minimum annual principal payments of $450. Interest is payable on the principal balance at the Canadian prime business rate.

Everlink has entered into agreements with Alberta Central, consisting of a line of credit to a maximum of $2,000 and authorized overdraft facilities to a maximum of $6,500. Celero has provided a guarantee on these agreements in proportion to its 49 percent shareholding in Everlink. As at December 31, 2016, Everlink had drawn $nil (2015 – $nil) against the line of credit or the authorized overdraft facility.

c) Transactions with Servus

As at December 31, 2016, Servus Credit Union Ltd. (Servus) owned 58.4 percent (2015 – 59.4 percent) of the total outstanding common shares held by Class A members of Alberta Central. Although Servus holds over 50% of the common shares in Alberta Central; it is limited, by the bylaws, to only 5 positions out of a possible 12 appointed board members, resulting in significant influence, but not control. The outstanding balances with Servus included in Alberta Central's statement of financial position and statement of income and comprehensive income are as follows:

17. RELATED PARTY TRANSACTIONS (CONTINUED)

	2016	2015
Loans	—	160,000
Members' deposits	1,138,442	842,372
Membership dues rebate accrual*	639	485
Common share capital	141,912	140,439
Interest income on loans	1,408	2,257
Interest expense on members' deposits	7,237	8,185
Membership dues and other income	6,407	6,707
Share capital dividends	3,835	3,479
Patronage dividends	4,840	4,550
Other distributions	787	651

** Included in accounts payable and accrued liabilities*

d) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Alberta Central and its proportionate interest in the CUPS joint operation and include 11 (2015 – 12) executive and senior management positions. Their aggregate compensation for the year included:

	2016	2015
Salaries and other short-term employee benefits	2,815	2,845
Post-employment benefits	342	303
Long-term employee benefits	373	385
	3,530	**3,533**

Mortgage loans to key management personnel bear interest at 1.0 to 1.4 percent (2015 – 1.0 to 1.4 percent) and are secured by property of the respective borrowers. No impairment losses have been recorded during the year against balances with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel at year-end. The table below presents the outstanding balances and transactions with key management personnel related to mortgage loans:

	2016	2015
Balance, beginning of year	1,816	1,720
Advances	490	595
Repayments	(189)	(499)
Balance as at December 31	**2,117**	**1,816**

17. RELATED PARTY TRANSACTIONS (CONTINUED)

e) Transactions with directors

	2016	2015
Remuneration paid to directors	232	222
Expenses paid on behalf of directors	96	92
	328	**314**

Directors are entitled to receive remuneration for participating in Alberta Central and affiliate organization related business. Remuneration to directors ranges from $11 to $37 (2015 – $6 to $33), with an average of $18 (2015 – $16) per annum.

Commercial loans of $7,119 as at December 31, 2016 (2015 – $7,478) are due from entities controlled by directors of Alberta Central.

18. CAPITAL MANAGEMENT

Alberta Central's objectives when managing capital are:

- To balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate
- To maintain a strong capital base to support the continued growth and changing circumstances of the credit union system through the development of Alberta Central's business
- To maintain a consistently strong credit rating and investor confidence
- To comply with the capital requirements set by its regulators

Alberta Central's capital levels are regulated under guidelines issued by OSFI and Alberta Treasury Board & Finance (Alberta TBF). See Note 22. These regulations require Alberta Central to maintain a prescribed borrowing multiple, the ratio of borrowings to regulatory capital. Federal regulation (OSFI) requires Alberta Central to maintain a borrowing multiple of 20:1 or less while provincial regulation (Alberta TBF) requires Alberta Central to maintain a borrowing multiple of 15:1 or less.

As an integral component of its capital management, Alberta Central has established internal operating capital targets above the regulatory minimum to ensure it has appropriate buffers to absorb increases in member deposits or notes payable and other liabilities and/or reductions in its capital. Establishing internal operating capital targets allows Alberta Central to practice prudent capital management. Alberta Central's *Bylaws* provide the ability for Alberta Central to call for capital in the event that capital levels fall below specified risk tolerance levels.

18. CAPITAL MANAGEMENT (CONTINUED)

As at December 31, 2016 and 2015, Alberta Central's capital levels exceeded both regulatory and internal minimum capital requirements. The table below summarizes the composition of regulatory capital:

	2016	2015
Common shares	244,084	237,835
Retained earnings	70,899	65,135
Less:		
Prepaid expenses	689	756
Deferred income tax asset	584	594
Investment in Celero excluding equity accounted income	3,220	3,220
Pension surplus, net of tax	681	300
Total regulatory capital	**309,809**	**298,100**
Excess over provincial capital requirements	**126,613**	**140,778**

19. FINANCIAL RISK MANAGEMENT

Alberta Central's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Alberta Central's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance according to the risk appetite and tolerance as approved by Alberta Central's board of directors.

a) Credit risk

Alberta Central takes on exposure to credit risk, which is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligations. Credit exposures arise from investment activities that bring debt securities and derivatives into Alberta Central's securities and derivatives portfolios, lending activities that lead to loans, and deposits held with third party financial institutions. Alberta Central is party to financial instruments with off-balance sheet credit risk that, in the normal course of operations, are used to meet its credit union members' financial needs. These instruments include commitments to extend credit, standby letters of credit and financial guarantees. The average term of commitments is one year. In the normal course of operations, these commitments may expire without being utilized.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Alberta Central's maximum exposure to credit risk, including undrawn commitments, without taking account of any collateral held or other credit enhancements is:

	2016	2015
Cash at other financial institutions	2,261	7,711
Securities	2,766,667	2,068,736
Loans outstanding and undrawn commitments	1,838,625	1,664,977
Derivatives	10,538	4,150
Items in transit (NOTE 10)	45,546	19,369
Accounts receivable	3,527	756
Standby letters of credit and financial guarantees	3,396	3,648
	4,670,560	**3,769,347**

Alberta Central, as the manager of the Alberta credit union system liquidity pool, is responsible to develop an earning asset base while providing for borrowing needs of Alberta credit unions and their members. Alberta Central manages credit exposure on investment activities by adhering to an *Investment Policy* which identifies a basic standard of investment quality. There have been no significant changes in credit risk in securities from the prior year.

Alberta Central's lending function focuses on the provision of loans to member credit unions and is closely integrated and coordinated with Alberta Central's liquidity management role. In addition, all of Alberta Central's commercial lending is provided on a syndicated basis with credit unions. Alberta Central or an individual credit union approved by Alberta Central may be positioned as the lead lender for any commercial loan. Approval for all syndicated loans over $1,000 is obtained from the Credit Union Deposit Guarantee Corporation (CUDGC). Alberta Central's credit risk exposure related to its commercial lending function is mitigated where it is not the lead lender, as management performs its own monitoring of its commercial loan portfolio. In addition, under regulation, total commercial loans, leases, interests in pooling funds, other loans held and guarantees given by Alberta Central shall not exceed 150 percent of Alberta Central's members' equity as at the end of the previous fiscal year.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Alberta Central employs and is committed to a number of important principles to manage credit exposures, which include:

- a board approved *Lending Policy*
- a management Credit Committee whose duties include review of lending policies and approval of larger credits
- delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by senior management personnel prior to recommendation to the management Credit Committee
- use of a credit risk classification system, which assigns a risk rating from 1 to 9, where 1 is excellent risk and 9 is impaired risk – non-performing, to all syndicated commercial loans that are reviewed on a regular basis
- employment of personnel engaged in credit granting who are qualified and experienced in lending
- lending policies which are communicated to employees whose activities and responsibilities include credit granting and risk assessment
- board approved quantified risk appetites and tolerances for borrower, industry, portfolio quality and geographic segments in the commercial loan and mortgage portfolio, as well as total exposure to commercial loans relative to members' equity
- annual reviews of loans
- independent reviews by Alberta Central's internal audit group, which includes reporting the results to the management Credit Committee and Alberta Central's Audit and Finance Committee

The following tables show Alberta Central's maximum lending exposure to credit risk, by industry and by portfolio, without taking account of any collateral held or other credit enhancements. Alberta Central's commercial loans and mortgages portfolio is 99.9 percent (2015 – 99.9 percent) concentrated in Alberta.

CREDIT RISK EXPOSURE BY INDUSTRY			2016	2015
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
Finance and insurance	12,225	1,575,737	1,587,962	1,415,503
Retail	54,342	6,798	61,140	64,374
Office	49,527	—	49,527	51,496
Industrial/warehouse	33,570	—	33,570	36,986
Apartment rental	29,238	414	29,652	19,868
Hospitality	27,272	1,044	28,316	27,688
Technology	3,161	13,500	16,661	17,111
Land development	7,225	8,950	16,175	8,033
Health care	10,675	—	10,675	22,720
Condominium construction	4,615	332	4,947	1,198
	231,850	**1,606,775**	**1,838,625**	**1,664,977**

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

CREDIT RISK EXPOSURE BY PORTFOLIO			2016	2015
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
Credit unions	5,129	1,543,256	1,548,385	1,396,979
Commercial loans and mortgages	213,130	23,871	237,001	223,364
Celero and Everlink	3,161	13,500	16,661	17,111
Cooperatives	4,990	26,148	31,138	22,873
Employee mortgages	5,440	—	5,440	4,650
	231,850	**1,606,775**	**1,838,625**	**1,664,977**

Collateral for the lending portfolio generally is as follows:

- *Credit unions:* general security agreements with the largest credit unions and security agreements over accounts and instruments from the remainder of the credit unions
- *Commercial loans and mortgages:* secured primarily by real estate, as well as a general security agreement, with a loan to value ratio of less than 75 percent at origination of the loan
- *Cooperatives:* secured by real estate
- *Celero and Everlink:* general security agreement
- *Employee mortgages:* secured by the residence

All loans more than 30 days in arrears are considered to be past due. As at December 31, 2016 there were $nil (2015 –$nil) loans outstanding that were past due but not impaired.

The credit quality of the securities can be assessed by reference to the rating system of DBRS, Moody's Corporation or Standard & Poor's Corporation. Alberta Central's *Investment Policy* states that the statutory investments held must be rated at least R-1 or P-1 for commercial paper and A for bonds. The credit risk related to equity investments in affiliates and cooperatives is limited as the *Credit Union Act of Alberta* restricts Alberta Central's investment in such entities to ten percent of members' equity without prior approval from Alberta TBF.

Alberta Central enters into various derivative contracts in the normal course of its business, including interest rate swaps, call options, index options and foreign exchange forwards. The instruments are primarily used to meet the needs of member credit unions. Other than credit risk, Alberta Central does not accept any net market risk exposure to derivative contracts entered into on behalf of member credit unions as it enters into offsetting contracts with other financial institution counterparties. Derivative assets and liabilities are marked to market with net changes in value recorded in net income. All non-credit union derivative counterparties are with major Canadian financial institutions rated AA or higher (as rated by DBRS). Under its *Investment Policy,* Alberta Central has established trading limits for each institution.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following tables show details of Alberta Central's derivative financial instruments with credit unions:

FAVOURABLE CONTRACTS	2016		2015	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Index options	122,812	8,313	132,865	1,966
Foreign exchange forwards	533	11	—	—
Interest rate swaps	485,000	2,214	170,000	2,184
	608,345	**10,538**	**302,865**	**4,150**

UNFAVOURABLE CONTRACTS	2016		2015	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Index options	122,812	8,313	132,865	1,966
Foreign exchange forwards	533	11	—	—
Interest rate swaps	485,000	2,214	170,000	2,184
	608,345	**10,538**	**302,865**	**4,150**

The weighted-average interest rate paid on interest rate swaps with credit unions was 1.12 percent (2015 – 1.61 percent). The weighted-average interest rate received on interest rate swaps with credit unions was 1.17 percent (2015 – 1.58 percent). The net exposure is offset through interest rate swaps entered into with other financial institution counterparties.

Alberta Central is party to a *Credit Support Annex*, which requires Alberta Central to pledge cash to the extent that the net value of swaps with a certain major Canadian financial institution decreases below a specified level. Cash and cash equivalents on the statement of financial position includes $nil (2015 – $nil) of cash pledged with the financial institution.

b) Liquidity risk

Liquidity risk is the risk that Alberta Central will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. To mitigate this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. Alberta Central's sources of funding are deposits from member credit unions, its commercial paper program and a line of credit with Central 1.

The majority of deposits from member credit unions are required by regulation as Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Credit unions are also required to maintain liquidity deposits at Alberta Central such that the total liquidity deposits and share capital with Alberta Central comprise nine percent of the credit union's liabilities.

As discussed in Note 13, Alberta Central, Central 1 and the credit union centrals of Manitoba and Saskatchewan are parties to a group clearing arrangement under the terms of the *Credit Union System Group Clearing Agreement*.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Provincial legislation requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year. One third of this amount must mature within 90 days. The balance in qualifying liquid assets as required under provincial legislation as at December 31, 2016 was $1,479,539 (2015 – $1,430,661). Alberta Central's liquidity reserves, when measured by year-end balances, were in excess of this requirement.

Contractual maturities for financial liabilities are shown in the table below:

	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	TOTAL
Members' deposits	2,233,972	163,067	—	2,397,039
Accounts payable and accrued liabilities	6,987	—	—	6,987
Notes payable and other liabilities	345,963	—	—	345,963
Derivative financial liabilities	801	11	9,726	10,538
December 31, 2016	**2,587,723**	**163,078**	**9,726**	**2,760,527**
December 31, 2015	**2,043,404**	**296,156**	**27,576**	**2,367,136**

c) Market risk

Market risk is comprised of three types of risk: foreign exchange risk, interest rate risk and other price risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risks exist mainly as a result of the existence of financial assets, derivatives and financial liabilities denominated in foreign currencies. The risk associated with changing foreign currency values is managed under Alberta Central's *Investment Policy*, which limits net exposures that can be maintained in various currencies. Alberta Central is not exposed to significant foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that net interest income will be adversely impacted by changes in market interest rates. This risk occurs as a result of disparity in the re-pricing dates and basis (e.g., the benchmark interest rate) of interest rate sensitive financial assets, derivatives and financial liabilities. Alberta Central uses simulation modeling to monitor and manage interest rate risk. It also uses gap analysis to assess interest rate risk by measuring the difference between the amount of financial assets and financial liabilities that re-price in a particular time period.

Alberta Central's interest rate sensitivity position as at December 31, 2016, as presented in the following tables, is based upon the contractual re-pricing and maturity dates of assets and liabilities. The table shows the cumulative gaps at various intervals.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	GREATER THAN 5 YEARS	NON-INTEREST SENSITIVE*	TOTAL
Assets						
Cash and cash equivalents	2,261	—	—	—	8,476	10,737
Securities	2,149,652	429,385	182,584	—	5,046	2,766,667
Loans	60,496	33,505	113,460	24,389	(2,650)	229,200
Derivative financial assets	83	—	2,132	—	8,323	10,538
Deferred income tax and other assets	—	—	—	—	58,805	58,805
	2,212,492	462,890	298,176	24,389	78,000	3,075,947
Weighted average interest rate	0.84%	1.07%	2.10%	3.79%		
Liabilities and Members' Equity						
Members' deposits	2,231,266	163,067	—	—	2,706	2,397,039
Accounts payable and accrued liabilities	—	—	—	—	6,987	6,987
Notes payable and other liabilities	254,000	—	—	—	91,963	345,963
Derivative financial liabilities	83	—	2,132	—	8,323	10,538
Members' equity	—	—	—	—	315,420	315,420
	2,485,349	163,067	2,132	—	425,399	3,075,947
Weighted average interest rate	0.67%	0.77%	0.55%	0.00%		
Total interest rate sensitivity gap	(272,857)	299,823	296,044	24,389	(347,399)	—
Cumulative interest rate sensitivity gap:						
December 31, 2016	**(272,857)**	**26,966**	**323,010**	**347,399**	**—**	**—**
December 31, 2015	**(142,456)**	**142,956**	**263,618**	**294,006**	**—**	**—**

** Provisions and fair value adjustments are included as non-interest sensitive.*

The following represents Alberta Central's interest rate risk position:

	2016	2015
Impact on members' equity from:		
Increase in interest rates of 100 basis points	(6,980)	(5,083)
Decrease in interest rates of 100 basis points	6,807	3,980
Impact on net income from:		
Increase in interest rates of 100 basis points	(684)	1,064
Decrease in interest rates of 100 basis points	(4,486)	(5,193)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument, including derivatives, will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Alberta Central manages its other price risk by adhering to an *Investment Policy*.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of Alberta Central's financial instruments is determined as follows:

FINANCIAL INSTRUMENT	DETERMINATION
ABCP	Based on maturity and sale values subsequent to December 31, 2016 as described in Note 22
Floating rate notes and bonds	Based on broker quoted market prices
Commercial paper, bankers' acceptances and bearer deposit notes	Based on discounted cash flow model using market interest rates or prices for similar instruments (interest rate curve)
Treasury bills	Based on discounted cash flow model using treasury bill interest rates (T-bill curve)
Loans receivable, members' deposits and notes payable	Based on discounted cash flow model using market interest rates for similar instruments
Derivative financial instruments	Based on recent market transactions for similar derivative instruments or if recent market transactions are not available, based on discounted cash flow model

The fair value of certain unquoted equity securities classified as available-for-sale securities cannot be reliably measured because trading is restricted, no market exists and they are issued by cooperative entities, or prices from recent market transactions are not available. Therefore, these securities are carried at their cost of $1,280 (2015 – $1,415). Alberta Central holds one additional available-for-sale equity security in a cooperative enterprise which does not have a quoted market price in an active market; however, it is recorded at its fair value of $4,510 (2015 – $4,510) based upon the most recent transaction. Alberta Central has no plans to dispose of these securities as of the date of these financial statements.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and notes payable and other liabilities approximates their carrying value due to their short-term nature.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair value and related carrying value of all financial instruments, excluding those whose fair value and carrying value are the same or are presented at fair value in the financial statements, have been summarized below:

	2016		2015	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial assets				
Loans	229,200	231,670	552,862	557,810
Financial liabilities				
Members' deposits	2,397,039	2,397,806	2,217,143	2,218,270

Financial instruments measured at fair value on the statement of financial position must be classified within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly
- Level 3 – Inputs that are not based on observable market data

Financial assets at fair value as at December 31:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and cash equivalents	10,737	—	—	10,737
Securities				
Held for trading	—	185,081	—	185,081
Available-for-sale	—	2,570,739	—	2,570,739
Derivative financial assets	—	10,538	—	10,538
Items in transit (NOTE 10)	45,546	—	—	45,546
December 31, 2016	**56,283**	**2,766,358**	**—**	**2,822,641**
December 31, 2015	**34,824**	**2,061,635**	**—**	**2,096,459**

Financial liabilities at fair value as at December 31:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Derivative financial liabilities	—	10,538	—	10,538
December 31, 2016	**—**	**10,538**	**—**	**10,538**
December 31, 2015	**—**	**4,150**	**—**	**4,150**

21. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the current year's presentation.

22. EVENTS AFTER THE REPORTING DATE

Effective January 15, 2017 Alberta Central ceased to be subject to the provisions of the *Cooperative Credit Associations Act of Canada*, which no longer applies to provincial credit union centrals. Pursuant to an announcement from the Department of Finance in 2015, OSFI ceased its supervision of provincial credit union centrals, including Alberta Central as of the same date. Alberta Central continues to be provincially regulated by Alberta TBF.

In January 2017, Alberta Central received principal and interest payments of $127,896 on ABCP MAV 2 Class A-1, A-2 and B notes and sold certain MAV 2 and MAV 3 tracking notes, reducing the face value of ABCP outstanding to $90 with a fair value of $2 (Note 7).

On February 23, 2017, Alberta Central's board of directors declared a share capital dividend to members of approximately $6,100 for payment on March 10, 2017. The board also declared a special share capital dividend to members of approximately $10,000 for payment on March 10, 2017.

CORPORATE INFORMATION

MANAGEMENT TEAM

Graham Wetter
PRESIDENT & CEO

Duane Blahun
CHIEF STRATEGY AND MEMBER ENGAGEMENT OFFICER

Susan Borrows
CHIEF PEOPLE AND CULTURE OFFICER

Steve Dunn
CHIEF TECHNOLOGY AND PAYMENTS OFFICER

Anne Gillespie
CHIEF FINANCIAL AND RISK OFFICER

Kate Hill
CHIEF GOVERNANCE AND COMPLIANCE OFFICER

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Patrick Little
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Carmen Marschall
DIRECTOR, TREASURY

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Michael Simonson
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Concept and design by IVY Design Inc. Photos by Kate Kunz.